

Audit



Report

OFFICE OF THE INSPECTOR GENERAL

**CONSOLIDATING FINANCIAL STATEMENTS OF THE
FOREIGN MILITARY SALES TRUST FUND - FY 1992**

Report No. 93-123

June 24, 1993

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Acronyms

CFO	Chief Financial Officer
DBOF	Defense Business Operations Fund
DFAS	Defense Finance and Accounting Service
DSAA	Defense Security Assistance Agency
FMFIA	Federal Managers' Financial Integrity Act
FMS	Foreign Military Sales
GAO	General Accounting Office
OMB	Office of Management and Budget



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202

June 24, 1993

MEMORANDUM FOR SECRETARY OF DEFENSE
COMPTROLLER AND CHIEF FINANCIAL OFFICER OF
THE DEPARTMENT OF DEFENSE

SUBJECT: Audit Report on the Consolidating Financial Statements of the Foreign
Military Sales Trust Fund - FY 1992 (Report No. 93-123)

We are providing this audit report for your information and use, and for use by Congress. Financial statement audits are required by the Chief Financial Officers Act of 1990. Office of Management and Budget (OMB) Bulletin No. 93-06, "Audit Requirements for Federal Financial Statements," January 8, 1993, requires the Inspector General to express an opinion on the fairness of financial statements. Also, we are required to report on the adequacy of internal controls and compliance with laws and regulations.

We are expressing an Adverse Opinion on the financial statements because of a lack of required accounting procedures for the Foreign Military Sales Trust Fund (the Fund). Such accounting procedures are required by DoD Manual 7220.9-M, "DoD Accounting Manual," October 1983, and by OMB Bulletin No. 93-06. The statements did not account for revenues, expenses, or net position of the Fund. Those account balances were reported at zero amounts, although the DoD disbursed \$12.4 billion on behalf of foreign customers for goods and services sold in FY 1992. In addition, accounts payable by the Army and Navy were not included in the statements. The statements included only amounts reported by the Air Force.

We found there was no official or organization exercising overall management of the Fund's day-to-day operations, and audit trails for disbursements were inadequate. We also observed instances of noncompliance with laws and regulations. We could not determine whether the DoD was complying with the Arms Export Control Act, as amended, which requires that the FMS program be operated at no cost to the U.S. Government, because there was no accounting for revenues and expenses. Internal control reviews, performed under the provisions of the Federal Managers' Financial Integrity Act, were inadequate, and interest penalties on late contractor payments were not charged to FMS cases as required by DoD Manual 7290.3-M, "FMS Financial Management Manual," September 18, 1986. Details of the conditions are discussed in Parts II and III of the report. This report contains no recommendations that are subject to resolution in accordance with DoD 7650.3; accordingly, comments are not required.

The Consolidating Financial Statements are not reliable or useful. The omission of revenues, expenses, and net position severely distorts the presentation and withholds much important information. Until the DoD accounts for revenues, expenses, and net position of the Fund, the statements should not be used by anyone as a basis for making decisions or reaching conclusions about the Fund.

The courtesies extended to the audit staff during the audit are appreciated. If you have any questions, please call Mr. David C. Funk, Program Director, at (303) 676-7445 (DSN 926-7445), or Mr. Byron B. Harbert, Project Manager, at (303) 676-7405 (DSN 926-7405). The distribution of this report is listed in Part IV, Appendix C.

A handwritten signature in black ink, reading "Robert J. Lieberman". The signature is written in a cursive style with a large, stylized "R" and "L".

Robert J. Lieberman
Assistant Inspector General
for Auditing

Office of the Inspector General, Department of Defense

Report No. 93-123
(Project No. 2FD-2005)

June 24, 1993

**AUDIT REPORT ON THE
CONSOLIDATING FINANCIAL STATEMENTS OF THE
FOREIGN MILITARY SALES TRUST FUND - FY 1992**

EXECUTIVE SUMMARY

Introduction. The Chief Financial Officers Act requires an annual audit of funds such as the Foreign Military Sales (FMS) Trust Fund (the Fund). The Fund was created to manage the financial aspects of the FMS program for all DoD activities. The Deputy for Security Assistance, Defense Finance and Accounting Service (DFAS)-Denver Center, receives cash payments from customers and issues expenditure authority to DoD activities for payment to FMS suppliers. The Defense Security Assistance Agency (DSAA) develops and administers the Fund's budget and monitors the cash position of each country's program to ensure adequate funds are available when needed. The Fund reported \$13.2 billion of cash and \$21.8 billion of total assets as of September 30, 1992.

Objectives. The primary objective of the audit was to determine whether the FMS Trust Fund Consolidating Statements for FY 1992 were presented fairly in accordance with generally accepted accounting principles for Federal entities. We evaluated the internal control structure established for the Fund and assessed compliance with laws and regulations that could have a material effect on the financial statements. We also determined the reliability and usefulness of financial information reported to the Office of Management and Budget (OMB), the Department of the Treasury of the United States, the DoD, and Fund management.

Independent Auditor's Opinion. We are expressing an Adverse Opinion on the financial statements. The statements did not account for revenues, expenses, or net position of the Fund. Those account balances were reported at zero amounts, although the DoD disbursed \$12.4 billion on behalf of foreign customers for goods and services sold in FY 1992. In addition, accounts payable by the Fund for Army and Navy sales cases were not included in the statements. Only amounts reported by the Air Force were included.

Internal Controls. Internal control weaknesses existed that we consider to be material and reportable conditions under standards established by OMB Bulletin No. 93-06. No official or organization exercised overall management of the Fund's day-to-day operations. Although the DSAA was responsible for overall program policy and direction and was designated the Fund manager, it did not have the authority to exercise its responsibilities. Authorities and responsibilities were divided among many officials and organizations, and the FMS program had no unified system for management and accounting. The DSAA had no authority over the Military Departments and other Defense agencies that negotiated and executed the sales, contracted for or provided goods and services to foreign customers, and performed accounting services for the FMS. In addition, the DoD had not established adequate audit trails to enable managers or auditors to verify payments. Payments posted to FMS case records at the DFAS-Denver Center could not be traced to the records of the DoD Components that reported the payments, because the systems used did not have this capability.

Compliance with Laws and Regulations. Material instances of noncompliance were disclosed. The DoD did not account for revenues, expenses, and net position of the Fund as required by OMB Bulletin No. 93-02, "Form and Content of Agency Financial Statements," October 22, 1992, and DoD Manual 7220.9-M, "DoD Accounting Manual," Chapter 52, October 1983. Consequently, the financial statements were misleading and we were unable to determine whether the DoD was complying with the provision of the Arms Export Control Act requiring that the FMS program be operated at no cost to the U.S. Government. An internal control review, under the provisions of the Federal Managers' Financial Integrity Act, was not performed, because such a review was outside the scope of any one organization involved with FMS. Accounts payable pertaining to sales made by the Army and the Navy were not included in the financial statements as required by DoD 7220.9-M. In addition, the DoD absorbed interest penalties paid to contractors resulting from late payments. The DoD Manual 7290.3-M, "Foreign Military Sales Financial Management Manual," September 18, 1986, requires that such costs be billed to the applicable foreign customer.

Usefulness of Financial Statements. The Consolidating Financial Statements are not reliable or useful. The omission of revenues, expenses, and net position severely distorts the presentation and withholds much important information. Until the DoD accounts for revenues, expenses, and net position of the Fund, the statements should not be used by anyone as a basis for making decisions or reaching conclusions about the Fund.

Management Comments. We provided draft reports of Parts II and III to management on May 17, 1993. We received comments from the Chief Financial Officer (CFO) on June 4, 1993, and from the DSAA Comptroller on June 3, 1993. The CFO nonconcurd with most of the internal control and compliance issues, including the need to account for revenues, expenses, and net position, as well as the need for a fund manager having authority over all FMS operations. The DSAA Comptroller disagreed with the need for a fund manager and the inadequacy of audit trails and substantially agreed with the other issues.

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This report was prepared by the Financial Management Directorate, Office of the Assistant Inspector General for Auditing, Department of Defense. Copies of the report can be obtained from the Secondary Reports Distribution Unit, Audit Planning and Technical Support Directorate, (703) 614-6303 (DSN 224-6303).

**Part I -Independent Auditor's Opinion
on the Financial Statements**

Introduction

Foreign Military Sales (FMS) were originally authorized in 1949 by the Mutual Defense Authorization Act. Currently, legislated guidelines for FMS are contained in the Arms Export Control Act, as amended. From 1949 to 1976, separate Department of the Treasury accounts were established for FMS within the Army, the Navy, the Air Force, and the DoD. In 1976, the separate accounts were consolidated into the FMS Trust Fund (the Fund). The Fund is used to manage the financial aspects of the FMS program for all DoD activities. No one entity can be considered the manager of this Fund. The Deputy for Security Assistance, Defense Finance and Accounting Service (DFAS)-Denver Center, receives cash payments from customers and issues expenditure authority to DoD activities for payment to FMS suppliers. The Defense Security Assistance Agency (DSAA) develops and administers the Fund's budget and monitors the cash position of each country's program to ensure that adequate funds are available when needed. The Fund reported \$13.2 billion of cash and \$21.8 billion of total assets as of September 30, 1992.

The Chief Financial Officers Act requires an annual audit of funds such as the FMS Trust Fund. The DoD is required to produce financial statements for the Fund. Those statements are the responsibility of the DoD. Our responsibility is to express an opinion on those statements based on our audit.

Scope

The audit was made from January 1992 to June 1993. We visited the Office of the Comptroller of the Department of Defense; the DSAA; Headquarters, DFAS; DFAS Centers in Columbus, Indianapolis, and Denver; and selected activities of the Army and the Navy. Appendix B, Part IV, contains a list of organizations visited or contacted during the audit. We examined the Consolidating Statements of the Fund as of and for the fiscal year ended September 30, 1992. The objective of the audit was to determine whether the statements presented fairly, in all material respects, the financial position, results of operations, and changes in financial position of the Fund in accordance with accounting principles established by the DoD. The Consolidating Statements include the Statement of Financial Position, Statement of Operations, Statement of Cash Flows, and Statement of Budget and Actual Expenses.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in those Statements, including the Notes. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall Statement presentation. We developed a client profile and cycle memorandums for the areas of cash, billing and collecting, disbursements, and performance reporting. We performed such tests of the accounting records as we deemed necessary in the circumstances. We believe that our audit efforts provide a reasonable basis for our opinion.

Auditing Standards

We conducted our audit in accordance with auditing standards issued by the Comptroller General of the United States as implemented by the Inspector General, Department of Defense, and Office of Management and Budget (OMB) Bulletin No. 93-06, "Audit Requirements for Federal Financial Statements," January 8, 1993. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements.

Accounting Principles

Accounting principles are currently being studied by the Federal Accounting Standards Advisory Board (the Board). Generally accepted accounting principles for Federal entities are to be promulgated by the Comptroller General and the Director, OMB, based on advice from the Board. In the interim, Federal agencies are to follow the applicable accounting standards contained in agency accounting policies, procedures manuals, and related guidance.

Adverse Opinion

The DoD did not account for revenues, expenses, or net position of the FMS Trust Fund. Those account balances were reported at zero amounts. This presentation asserts, erroneously, that the DoD did not sell any goods or services to foreign countries in FY 1992, did not incur any expenses in procuring goods or services on behalf of foreign countries, and has no net position resulting from sales in FY 1992 and prior years. Records of the DoD reflect that \$12.4 billion of disbursements to contractors and reimbursements to DoD Components were made from the FMS Trust Fund on behalf of foreign customers in FY 1992. The acting Chief Financial Officer (CFO) directed that no amounts be reported for revenues, expenses, and net position in the financial statements for the FMS Trust Fund. This direction contradicted accrual accounting policy in DoD 7220.9-M, "DoD Accounting Manual," October 1983, and financial statement presentation requirements in OMB Bulletin No. 93-02, "Form and Content of Agency Financial Statements," October 22, 1992.

Accounts payable amounts were not included in the financial statements for the Army and the Navy. Consequently, the accounts payable account is materially understated and includes only the amount pertaining to the Air Force. Records at the DFAS-Indianapolis Center indicated that the Army's accounts payable were approximately \$900 million. The amount of the Navy's accounts payable was not available.

Independent Auditor's Opinion on the Financial Statements

In our opinion, because of the effects of the matters discussed in the preceding paragraphs, the financial statements do not present fairly, in conformity with DoD accounting principles, the financial position of the FMS Trust Fund as of September 30, 1992, or the results of its operations or its cash flows for the year then ended.

Additional Information

During the audit, we reported several deficiencies to the CFO, the DFAS, and the DSAA in the form of a Management Advisory Memorandum (see Part VI). The deficiencies included failure to account for revenues, expenses, and net position; failure to include fixed assets and depreciation expense in the statements; lack of procedures for aging past-due accounts; and lack of provisions for writing off uncollectible accounts. The CFO, the DFAS, and the DSAA took no action on accounting for revenues, expenses, net position, fixed assets, and depreciation. The fixed assets and depreciation were not material. Action was taken to establish procedures for aging accounts receivable. A legal opinion from the General Counsel, DoD, held that the DoD lacks authority to write off amounts greater than \$100,000.

We also reviewed the financial information presented in management's Overview of the Reporting Entity and Supplemental Financial and Management Information for FY 1992. Such information has not been audited by us; accordingly, we do not express an opinion on this information.

Part II - Internal Controls

Introduction

We audited the internal control structure of the Foreign Military Sales (FMS) Trust Fund (the Fund) for the year ended September 30, 1992. Such audits are a requirement of the Chief Financial Officers Act of 1990.

Managers of the DoD Components that operate the FMS Trust Fund are responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable but not absolute assurance that the following are met.

- o Transactions are properly recorded and accounted for to permit the preparation of reliable financial statements and to maintain accountability over assets.

- o Funds, property, and other assets are safeguarded against loss from unauthorized use or disposition.

- o Transactions, including those related to obligations and costs, are executed in compliance with laws and regulations that could have a direct and material effect on the consolidating statements, and any other laws and regulations that the Office of Management and Budget (OMB), entity management, or the Inspector General, Department of Defense, has identified as being significant for which compliance can be objectively measured and evaluated.

- o Data that support reported performance measures are properly accounted for to permit preparation of reliable and complete information.

Objectives and Scope

The objective of the audit was to determine whether material internal control weaknesses existed.

In planning and performing our audit of the FMS Trust Fund for the year ended September 30, 1992, we evaluated the Fund's internal control structure. The purposes of this evaluation were to determine our auditing procedures for expressing our opinion on the Consolidating Statements and to determine whether the internal control structure was established to ensure that the statements were free of material misstatements. We obtained an understanding of the internal control policies and procedures and assessed the level of control risk relevant to all significant cycles, classes of transactions, and account balances. For those significant control policies and procedures that had been

properly designed and placed in operation, we performed sufficient tests to provide reasonable assurance that the controls were effective and working as designed.

For the purpose of this report, we classified the categories of significant internal control policies and procedures as cash, billing and collecting, disbursements, and performance reporting. Our consideration of the internal control structure included all these categories. Our consideration of the internal control structure would not necessarily disclose all matters that might be reportable and, accordingly, would not necessarily disclose all conditions that are also considered to be material weaknesses. Conditions discussed have a material effect on the Fund's FY 1992 Consolidating Statements. The conditions were not reported by the Comptroller of the Department of Defense, the Defense Security Assistance Agency (DSAA), the Defense Finance and Accounting Service (DFAS), or the Military Departments in their Federal Managers' Financial Integrity Act Annual Statements for FY 1992.

We conducted our audit in accordance with generally accepted auditing standards issued by the Comptroller General of the United States as implemented by the Inspector General, Department of Defense, and OMB Bulletin No. 93-06, "Audit Requirements for Federal Financial Statements," January 8, 1993. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Consolidating Statements are free of material misstatements.

Prior Audit Coverage

There have been no previous audits specifically addresssing the internal controls of the FMS Trust Fund. The following audits and other reviews performed by the Inspector General, Department of Defense, and the General Accounting Office (GAO) addressed Fund issues.

The Inspector General, Department of Defense, issued Report No. 91-118, "Report on the Audit of Foreign Military Sales Trust Fund Disbursement Reporting," in September, 1991. The objective of the audit was to determine whether disbursements from the FMS Trust Fund were promptly and accurately reported to the DFAS-Denver Center. The report concluded that internal controls for disbursements were adequate and that transaction records were generally supported by valid documentation. No recommendations were made in the report. The audit, however, did not address the validity of disbursements or the adequacy of related audit trails.

The GAO issued Report No. AFMD-90-18, "Foreign Military Sales Defense Efforts Are Improving Program Accounting," in January 1990. The objective of the audit was to evaluate the DoD's progress in resolving the differences between billing and disbursement records in the Fund. The GAO found that progress had been made in resolving the differences, but significant differences still remained. No recommendations were made in that report.

Internal Controls

The Inspector General, Department of Defense, issued Report No. 90-INS-15, "Defense Security Assistance Programs," in July 1990. This report stated that flaws in the FMS accounting system have resulted in an out-of-balance condition in the Fund. The report recommended that the DSAA and the Security Assistance Accounting Center (now the DFAS-Denver Center) continue to make improvements in the Fund's accounting procedures.

Results of Audit

Internal control weaknesses existed that we consider to be material and reportable conditions under standards established by OMB Bulletin No. 93-06. Reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to effectively control and manage its resources and ensure reliable and accurate financial information to manage and evaluate operational performance. A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities could occur. Such errors would be in amounts that would be material in relation to the statements being audited, or material to a performance measure or aggregation of related performance measures, and not be detected within a timely period by employees in the normal course of performing their assigned functions.

We found there was no official or organization exercising overall management of the Fund's day-to-day operations, and audit trails for disbursements were inadequate.

Lack of Overall Management. Authorities and responsibilities for management of the Fund's day-to-day operations were divided among many officials and organizations. The FMS program also had no unified system for management and accounting. The DSAA was responsible for overall program policy and direction. Although the DSAA was designated the Fund manager, it did not have the authority to exercise its responsibility. Several DoD activities were involved in executing the Fund. The DSAA had no authority over the Military Departments and other Defense agencies that negotiated and executed the sales, contracted for or provided goods and services to foreign customers, and performed accounting services for the FMS. In the Military Departments and Defense agencies, we identified 15 different automated systems used to process FMS transactions. Many of those systems were not designed to meet FMS requirements and did not adequately identify and report accrued expenses, accounts payable, disbursements, and interest penalties on late payments to contractors. The DSAA lacked the authority to hold managers in the Military Departments and other Defense agencies accountable for the adequacy of accounting and reporting of FMS transactions. Without central authority, there was no assurance that transactions were adequately reported, charges were correctly computed, and DoD accounting policies were followed.

Government auditing standards require that we ask the head of a reporting entity to provide a management representation letter regarding the financial statements and assertions. Because the Fund did not have a manager, we addressed our request to the Chief Financial Officer (CFO) of the Department of Defense. The CFO replied that his policy was to not sign letters of representation; he stated that such letters should be signed by an official responsible for the day-to-day operations of the reporting entity. Since the Fund had no such official, we could not obtain a management representation letter providing adequate assurance for the financial statements. We received an unrequested representation letter from the DSAA Comptroller. Most of the key assurances in the letter were prefaced with the statement: "Within our cognizance...." Since the DSAA had no authority or cognizance over the DoD activities executing and accounting for the FMS program, the DSAA Comptroller's letter did not fulfill the requirement for a management representation letter.

The FMS program needs a single manager with full authority over all operations. Until such a position is established, management of FMS will continue to be fragmented. Consequently, the FMS financial statements will be subject to high risk that presentation is not fair, resources are not adequately protected, account balances are inaccurate, and all applicable costs are not recovered from foreign customers.

Inadequate Audit Trails for Disbursements. The DoD had not established adequate audit trails to enable managers or auditors to verify payments. Payments posted to FMS case records at the DFAS-Denver Center could not be traced to the records of the DoD Components that reported the payments, because the systems used did not have this capability. In addition, the DFAS-Denver Center had not established a statistically valid universe of payments; for some payments, more than one entry was made. When a disbursement report contained any errors, it was entered into the DFAS-Denver Center accounting records at least three times. The first entry was incorrect, the second entry reversed the first, and the third entry reflected the correction. If additional corrections were required, additional entries were made. Also, the DFAS-Columbus Center (DoD's largest disbursing office for FMS contractor payments) did not keep records of all payments. Therefore, we could not perform audit tests to ensure that FMS funds were not used to make fraudulent or erroneous payments.

In order to perform such tests with reasonable assurance of validity, statistical sampling must be used. Unless universes are established so that individual payments may be randomly sampled and each payment in the universe given an equal chance of being selected, a statistical sample cannot be taken. Audit tests also cannot be done unless records can be traced to their sources. When managers and auditors cannot verify FMS payments, there is a higher risk that erroneous or fraudulent payments can occur and remain undetected.

Management Comments

The CFO nonconcurred with our conclusion that there was inadequate management of the FMS program. He stated that the Director, DSAA, was the fund manager. The response acknowledged that execution of FMS is decentralized in the DoD Components and that the DoD Components perform day-to-day management of the program. The CFO also presented reasons to support his belief that FMS management should be dispersed among the DoD Components. The CFO's response is presented in its entirety in Part VII of this report.

The DSAA Comptroller also nonconcurred with our assertion about inadequate management of the Fund, although he stated: "We agree that no single DoD official or organization exercised management authority over the day-to-day operations of the Foreign Military Sales (FMS) program." The DSAA Comptroller cited the existing DoD organizational structure and related policy as the reason for his nonconcurrence. His response is also presented in Part VII of this report.

The CFO nonconcurred with our conclusion that audit trails for disbursements were inadequate, stating that disbursements could be traced to source documentation. The CFO, however, did not state how such tracing could be accomplished. The CFO also stated that the DFAS-Columbus Center keeps records of payments.

The DSAA Comptroller nonconcurred on the issue of audit trails and stated that Headquarters, DFAS, advised his agency that the DFAS-Columbus Center keeps records of FMS contractor payments. The DSAA Comptroller did not state how disbursements could be traced. He defended the practice of recording three separate transactions whenever a correction is necessary to establish accounting control.

Audit Evaluation of Management Comments

In their responses on the management issue, both the CFO and the DSAA Comptroller cite facts that, we believe, provide support to our position. The responses agree that no single official has the authority to exercise day-to-day management over FMS. The comments focused, however, on defending current organizational practices within the DoD. In our opinion, the dispersed authorities and responsibilities have resulted in inadequate systems of accounting and internal controls.

Regarding the audit trail issue, both the CFO and the DSAA Comptroller stated that disbursement records were kept at the DFAS-Columbus Center. When we requested a listing of FMS payments made during FY 1992, however, the Director of the DFAS-Columbus Center stated in a memorandum to us: "An electronic file of each disbursement made in FY 1992 on behalf of a FMS customer is not available at the Columbus Center as we do not have the accounting records." The Director, DFAS-Columbus Center, suggested that the

data we were looking for could be found in the Program Budget and Accounting System at the DFAS-Indianapolis Center. An official at the DFAS-Indianapolis Center informed us, however, that the Program Budget and Accounting System contained records of authorization for disbursements, not records of actual disbursements.

With regard to entering disbursements three times in the records to correct errors, we would agree with the DSAA Comptroller's comment on this point if the disbursement voucher number were recorded in the case records at the DFAS-Denver Center. The presence of a data element, such as disbursement voucher number, linking a transaction in the records at the DFAS-Denver Center to the records in the Military Departments would serve two purposes. It would provide the needed audit trail and it would provide a means to establish a statistically valid universe for sampling. By selecting the most recent entry for each voucher number (or other linking data element), the universe could be established. Without the presence of a linking data element, however, there is no way to establish the universe or to trace transactions to their sources.

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Part III - Compliance with Laws and Regulations

Introduction

We tested the Foreign Military Sales (FMS) Trust Fund (the Fund) for material instances of noncompliance with laws and regulations for the year ended September 30, 1992. Such tests are required by the Chief Financial Officers Act of 1990.

Objectives and Scope

The objective of the audit was to determine whether material instances of noncompliance with laws and regulations existed. Material instances of noncompliance are failures to follow requirements, or violations of prohibitions contained in laws or regulations. Such failures or violations cause us to conclude that the aggregation of the misstatements resulting from those failures or violations is material to the Consolidating Statements, or those whose sensitive nature would cause them to be perceived as significant by others.

Compliance with laws and regulations applicable to the Fund is the responsibility of the Chief Financial Officer (CFO) of the Department of Defense; the Director, Defense Security Assistance Agency (DSAA); the Director, Defense Finance and Accounting Service (DFAS); the Directors of other Defense agencies; and the Secretaries of the Army, the Navy, and the Air Force. As part of obtaining reasonable assurance about whether the Consolidating Statements are free of material misstatements, we tested compliance with laws and regulations that may directly affect the financial statements and certain other laws and regulations designated by the Office of Management and Budget (OMB) and the DoD (see Appendix A of Part IV for the complete list of laws and regulations tested). As part of our audit, we reviewed management's process for evaluating and reporting on internal control and accounting systems as required by the Federal Managers' Financial Integrity Act (FMFIA). We compared the audited entity's most recent FMFIA reports with the evaluation we conducted on the entity's policies, procedures, and systems for documenting and supporting financial, statistical, and other information as presented to us in the Overview and Supplemental sections of the financial statements. Our objective, however, was not to provide an opinion on overall compliance with such provisions.

We conducted our audit in accordance with generally accepted auditing standards issued by the Comptroller General of the United States as implemented by the Inspector General, Department of Defense, and OMB Bulletin No. 93-06, "Audit Requirements of Federal Financial Statements," January 8, 1993. Those standards require that we plan and perform the audit to obtain reasonable assurance that the Fund's Consolidating Statements are free of material misstatements.

Prior Audit Coverage

There have been no previous audits of compliance with laws and regulations related to the FMS Trust Fund. The following audits and other reviews performed by the Inspector General, Department of Defense, and the General Accounting Office (GAO) addressed Fund issues.

The Inspector General, Department of Defense, issued Report No. 91-118, "Report on the Survey of Foreign Military Sales Trust Fund Disbursement Reporting," in September, 1991. The objective of the survey was to determine whether disbursements from the FMS Trust Fund were promptly and accurately reported to the DFAS-Denver Center. The report concluded that internal controls for disbursements were adequate and that transaction records were generally supported by valid documentation. No recommendations were made in the report.

The GAO issued Report No. AFMD-90-18, "Foreign Military Sales Defense Efforts Are Improving Program Accounting," in January 1990. The objectives of the audit were to evaluate the DoD's progress in resolving the differences between the Fund's billing and disbursement records. The GAO found that progress had been made in resolving the differences, although significant differences still remained. No recommendations were made in this report.

The Inspector General, Department of Defense, issued Report No. 90-INS-15, "Defense Security Assistance Programs," in July 1990. This report stated that flaws in the FMS accounting system have resulted in an out-of-balance condition in the Fund. The report recommended that the Defense Security Assistance Agency and the Security Assistance Accounting Center (now the DFAS-Denver Center) continue to make improvements in the Fund's accounting procedures.

Results of Audit

The results of our tests of compliance disclosed the following instances of noncompliance that materially affected the reliability of the Fund's Consolidating Statements.

Revenues, Expenses, and Net Position Not Accounted For. OMB Bulletin No. 93-02, "Form and Content of Agency Financial Statements," October 22, 1992, and DoD Manual 7220.9-M, "DoD Accounting Manual," October 1983, Chapter 52, require that revenues, expenses, and net position be accounted for and presented in the financial statements. Guidance from the CFO did not allow the DSAA and the DFAS to account for the Fund's revenues, expenses, and net position. We issued an advisory memorandum to the CFO on August 6, 1992, requesting that revenues, expenses, and net position (equity) be shown in the Fund's financial statements (see Part VI). The CFO responded in a memorandum on August 31, 1992, stating that the FMS program extended beyond the Fund and that revenues, expenses, and net position did not apply to the Fund. We disagree with the CFO. Since the FMS program can only

Compliance with Laws and Regulations

operate through the FMS Trust Fund, accounting for the Fund cannot be separated from accounting for the FMS program. To ensure compliance with the Arms Export Control Act and to effectively manage the Fund's resources, managers and other users need information on the revenues, expenses, and net position of the FMS program.

FMS Costs Not Determined. The Arms Export Control Act requires that the FMS program be operated at no cost to the U.S. Government, except where authorized. We could not determine whether the FMS program was in compliance with this law because the DoD did not account for FMS revenues, expenses, and net position. Accrual accounting in accordance with DoD 7220.9-M is essential to determining whether the DoD is fully recovering all costs of the FMS program.

Internal Control Reviews. Internal control reviews did not adequately assess FMS systems and processes. There was no internal control review of the overall FMS program. Operations and accounting for FMS occur within the DoD Components (the Army, the Navy, the Air Force, and the Defense agencies). The DoD Components conducted FMFIA reviews as required; however, there was no overall FMFIA review of accounting for FMS transactions because such a review was outside the scope of any single organization. As a result, FMFIA reviews focused on each organization's role in the FMS program without considering how any one organization's role and procedures affected the role and procedures of the other organizations, or whether the goals of the FMS program were met. We noted a material weakness in internal controls over accounting for FMS disbursements. That weakness was not addressed in FMFIA reviews. It is discussed in Part II, "Report on Internal Controls."

Accounts Payable Not Included in Financial Statements. The "Statement of Financial Position" included accounts payable for the Air Force, but no mechanisms had been established to report accounts payable for Army and Navy transactions. Consequently, the accounts payable balance was materially understated. The DoD Manual 7290.3-M, "Foreign Military Sales Financial Management Manual," September 18, 1986, Chapter 3, requires that accounts payable be reported to the DFAS-Denver Center.

Interest Penalties Paid to Contractors Absorbed by DBOF. Foreign customers were not billed for interest penalties that resulted when DoD paying offices made late payments to contractors. The Arms Export Control Act requires that the FMS program be operated at no cost to the U.S. Government. When a DoD activity incurs additional expenses under the Prompt Payment Act of 1982, the DoD Manual 7290.3-M, Chapter 7, requires that such costs be billed to the customer. The Defense Business Operations Fund (DBOF) absorbed these costs, however. In addition, there were no reporting mechanisms for reporting late payment penalties for FMS as required by DoD Manual 7290.3-M. This issue was identified by Headquarters, DFAS, and the DFAS-Columbus Center.

The results of our tests of compliance indicated that the DoD did not comply with provisions of the FMFIA, OMB Bulletin No. 93-02, DoD Manual 7220.9-M, and DoD Manual 7290.3M. Therefore, the resulting conditions could have a material effect on the FY 1992 financial statements and affected our opinion on the Fund's financial statements. With respect to items not tested, nothing came to our attention to cause us to believe that the DoD had not complied, in all material respects, with those provisions.

Management Comments

The CFO nonconcurred with our position that revenues, expenses, and net position must be accounted for and presented in the financial statements of the FMS Trust Fund. The CFO presented the position that accounting for the FMS Trust Fund should only include cash received and cash disbursed and that accounting for revenues, expenses, and net position was inappropriate. The CFO's complete comments are presented in Part VII of this report.

The DSAA Comptroller did not state whether he concurred or nonconcurred with the revenues, expenses, and net position issue. He stated that the DSAA had followed the policy of the CFO to not include revenues, expenses, and net position in the financial statements. The DSAA's entire comments are also in Part VII of this report.

The CFO nonconcurred with the conclusion that FMS costs could not be determined. He stated that it is necessary to examine each performing activity's records to determine if a loss has occurred. The CFO also stated that accrual accounting would not and should not be expected to ensure that expenses do not exceed revenues at installation level.

The DSAA Comptroller partially agreed on the FMS cost determination issue. He stated, however, that the DSAA has instituted management procedures to recover all costs. He also stated that accruing costs cannot guarantee that any or all costs are accurately determined and reported.

The CFO nonconcurred with our conclusion that internal control reviews were inadequate. He stated that the reviews were consistent with the way the FMS Trust Fund is managed. The CFO also stated that the DoD does not perform FMFIA reviews of programs that cut across organizational lines. He said that internal control reviews were performed of the Fund and its feeder systems.

The DSAA Comptroller concurred that internal control reviews were inadequate and agreed with the CFO that DoD policy was to perform internal control reviews on an organizational basis, not on a program basis.

The CFO concurred in principle with the condition that accounts payable were understated. He stated that the audit report does not indicate whether the payables are those of the Military Departments or the Fund, and he suggests that only payables of the Fund should be included in the Fund's financial statements.

Compliance with Laws and Regulations

The DSAA Comptroller concurred that accounts payable were understated and said that the accounts payable presented in the statements included only those pertaining to the Air Force.

The CFO partially concurred that interest penalties paid to contractors were absorbed by the DBOF. He stated that the DBOF is reimbursed by the Military Departments for this expense and that the Fund reimburses the Military Departments for contract administration. He concluded that interest penalties were not being absorbed by the DBOF, but were absorbed by the Fund. Nevertheless, the DFAS has initiated action to bill FMS customers directly for interest penalties.

The DSAA Comptroller concurred with the interest penalty issue and stated that FMS customers will pay their share of interest penalties through the surcharge.

Audit Evaluation of Management Comments

Regarding the omission of revenues, expenses, and net position in the financial statements, the CFO did not comment on the provision in Chapter 52, DoD Manual 7220.9-M, that explicitly requires accounting for revenues, expenses, and net position of the FMS Trust Fund. The CFO also did not comment on how his position could be reconciled with the requirement in OMB Bulletin No. 93-02 to report on revenues, expenses, and net position of trust funds. We did not find any guidance or set of established accounting principles that excludes accounting for revenues, expenses, and net position in a set of financial statements. More importantly, the Consolidating Statements resulting from the CFO's policy do not adequately provide managers or interested outside parties with useful information to manage or evaluate the Fund, and the distortion of financial information resulting from the omissions is misleading.

The CFO's comment that it is necessary to examine each performing activity's records to ensure that costs are fully recovered highlights the fact that accounting for FMS is not accomplished at DoD level. The CFO's comment that accrual accounting would not ensure that expenses do not exceed revenues at installation level is misleading. While accrual accounting does not ensure that expenses do not exceed revenues, accrual accounting does report such conditions. Such reporting would enable management to take appropriate action. A complete and uniform system of accrual accounting for FMS would ensure that costs at all levels (including installation level) were accurately determined, reported, and summarized for management's use.

We agree with the DSAA Comptroller's point that current management procedures assist in determining some costs. The procedures do not, however, address most cost determinations that are made within the performing activities over which the DSAA has no oversight. We disagree with the DSAA Comptroller's statement regarding accruing costs. Accrual accounting, when adequately implemented, provides for accurate identification and reporting of all costs.

Compliance with Laws and Regulations

The CFO's comments acknowledge that no internal management control review was accomplished for the FMS program, but disagree with our position that such a review is needed. We maintain that only a program review can fully consider the overall functioning of the FMS process and the interrelationships among organizations. The lack of such a review has resulted in many problems remaining undetected by management.

With regard to the understatement of accounts payable, the CFO's statement indicated a concern on whether the payables discussed were payable by the Fund or by a Military Department. The accounts payable we referred to were payable by the Fund. Accounts payable by the Fund arise as a result of a performing activity providing goods or services to an FMS customer. The Fund pays for such goods and services in two ways: by reimbursing appropriations that make the initial payment and by paying contractors directly with FMS funds. In either case, once the goods or services are provided, the Fund has incurred a liability to pay. Whether the recipient of the payment is a contractor or an appropriation is irrelevant.

We consider management comments by the CFO and the DSAA Comptroller regarding the interest penalty issue to be responsive.

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Part IV - Additional Information

Appendix A. Laws and Regulations

Chief Financial Officers Act of 1990, Public Law (P.L). 101-576

Arms Export Control Act, as amended, P. L. 90-629

Prompt Payment Act of 1988, P. L. 100-496

Federal Managers' Financial Integrity Act of 1982, P. L. 97-255

Office of Management and Budget (OMB) Bulletin No. 93-02, "Form and Content of Agency Financial Statements," October 22, 1992

OMB Circular No. A-123, "Internal Control System," August 4, 1986

DoD Manual 7220.9-M, "DoD Accounting Manual," October 1983

DoD Manual 7290.3-M, "Foreign Military Sales Financial Management Manual," September 18, 1986

Appendix B. Organizations Visited or Contacted

Office of the Secretary of Defense

Deputy Comptroller of the Department of Defense (Management Systems),
Washington, DC

Department of the Army

Army Security Affairs Command, New Cumberland, PA
Army Armaments, Munitions, and Chemical Command, Rock Island, IL

Department of the Navy

Navy International Programs Office, Washington, DC
Naval Sea Systems Command, Washington, DC
Naval International Logistics Control Office, Philadelphia, PA

Defense Agencies

Headquarters, Defense Finance and Accounting Service, Washington, DC
Defense Finance and Accounting Service Center, Columbus, OH
Defense Finance and Accounting Service Center, Denver, CO
Defense Finance and Accounting Service Center, Indianapolis, IN
Defense Security Assistance Agency, Washington, DC

Non-DoD Federal Organizations

Department of the Treasury, Washington, DC

Appendix C. Report Distribution

Office of the Secretary of Defense

Comptroller and Chief Financial Officer of the Department of Defense
Deputy Chief Financial Officer of the Department of Defense

Department of the Army

Inspector General, Department of the Army
Auditor General, Army Audit Agency

Department of the Navy

Comptroller of the Navy
Auditor General, Naval Audit Service

Department of the Air Force

Assistant Secretary of the Air Force (Financial Management and Comptroller)
Auditor General, Air Force Audit Agency

Defense Agencies

Director, Defense Finance and Accounting Service
Director, Defense Security Assistance Agency

Non-Defense Federal Organizations

Office of Management and Budget
U.S. General Accounting Office
NSIAD Technical Information Center

Non-Defense Federal Organizations (cont'd)

Chairman and Ranking Minority Member of Each of the Following Congressional Committees and Subcommittees:

Senate Committee on Appropriations
Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Governmental Affairs
House Committee on Appropriations
House Subcommittee on Defense, Committee on Appropriations
House Committee on Armed Services
House Committee on Government Operations
House Subcommittee on Legislation and National Security,
Committee on Government Operations

**Part V - Consolidating Financial
Statements of the Foreign
Military Sales Trust Fund -
FY 1992**

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FY 1992 Annual Financial Statements Foreign Military Sales Trust Fund



OFFICE OF THE COMPTROLLER OF THE DEPARTMENT OF DEFENSE

WASHINGTON, DC 20301-1100

MAR 31 1993

MAR 25 1993

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR AUDITING, DOD

SUBJECT: Transmittal of the Defense Security Assistance Agency
Financial Statements on FY 1992 Financial Activity

The attached financial statements for the Defense Security Assistance Agency (DSAA) on FY 1992 financial activity are submitted for audit as required by the Chief Financial Officers Act of 1990.

The principal statements include consolidating and supporting financial statements for accounts 97-11X4116, 97-11X4121, 97-11X4122 and 97-11X8242 to provide an audit trail from the individual accounts to the principal statements.

My staff, and that of the Defense Security Assistance Agency, are available to provide assistance and information as you require in the upcoming audit of these financial statements. We will work with your staff to make the adjustments and improvements necessary to ensure the financial statements present fairly, in all material respects, the assets, liabilities, and net financial position, of the Defense Security Assistance Agency as of September 30, 1992.

A handwritten signature in cursive script, appearing to read "Alvin Tucker".
Alvin Tucker

Acting Chief Financial Officer

Attachment

MAR 31 1993

Chief Financial Officer
FY 1992 Annual Financial Statement
Defense Security Assistance Agency

*** indicates text relating to the
Foreign Military Sales Trust Fund

December 31, 1992

FY 1992 Annual Financial Statements Foreign Military Sales Trust Fund

FY 1992 ANNUAL FINANCIAL STATEMENT DEFENSE SECURITY ASSISTANCE AGENCY

FOREWORD

REQUIREMENT

The Chief Financial Officers Act (CFO) of 1990 established an annual requirement that all departments and agencies within the U.S. Government prepare, and have audited, financial statements covering their activities for the previous fiscal year. The Office of Management and Budget (OMB) has issued the form and content requirements and the Chief Financial Officer for the Department of Defense has further defined and supplemented those instructions. OMB and DOD policy and instructions clearly require that both program and financial information be presented in the report. For FY 1992, DSAA was directed to include only its commercial, revolving, and trust fund accounts in this report. However, in future years OMB and DOD are expected to direct the inclusion of all appropriation accounts.

ANNUAL DOD REQUIREMENT

This document was requested by OSD (C) Acting Chief Financial Officer's Memorandum of October 27, 1992, Subject: DoD Guidance on Form and Content of Financial Statements for FY 1992 Financial Activity. The DSAA submission conforms to the instructional set of forms and guidance that was supplied as an attachment to the memo. Following submission by DSAA to the DOD Chief Financial Officer, this report will be audited by the DODIG and incorporated into the DOD CFO report that is submitted to OMB and the Congress.

DSAA INVOLVEMENT

Fiscal year 1992 is the second year that DSAA has prepared the CFO document and each publication contains improvements. These documents were prepared by DSAA personnel with assistance from DFAS-DE/FR personnel. DSAA-COMPT-PBD was the focal point within the DSAA Comptroller's Office for producing the report. DSAA Operations and Plans personnel provided significant input for the Part I "Overview and Summary" Statement. DFAS-DE/FR personnel contributed the financial statements in Part II and assisted with the footnotes in Part III. In Part V., DSAA Program Division was the main contributor to the Special Defense Acquisition Fund's performance indicators and DSAA-COMPT-FCRD contributed most of the Trust Fund's performance indicators.

Inquiries or suggestions for improvements should be addressed to DSAA-COMPT-PBD. A distribution listing is included within the report.

FY 1992 Annual Financial Statements Foreign Military Sales Trust Fund

DISTRIBUTION

<u>OFFICE</u>	<u>#</u>	<u>ORGANIZATION/ADDRESS</u>
OSD (C) MS	1	OSD (C) MS and ACTING CFO Attn: MR. Oscar Covell
	1*	DFAS-IN Center Attn: Mr. Mike Archer DFAS-IN-AF, Stop 90 8899 E. 56th Street Indianapolis, IN. 46249-1356 *OSD (C) ACFO copy to publish in the combined DoD Report
DODIG-FD	1	DODIG-FD ATTN: Mr. Brice Harbert 6760 East Irvington Place Denver, CO 80279-8500
DODIG-AUD-FM	1	DODIG-AUD-FM ATTN: MS. Debbie Alford 400 AND, Room 935 Washington, DC 22202
	1	DODIG-AUD-FM ATTN: Ms Maureen Hollingsworth 400 AND, Room 929 Washington, DC 22202
	1	DODIG-AUD-FM ATTN: Mr. Alvin R. Madison 400 AND, Room 936 Washington, DC 22202
DFAS-HQ/ARD	2	(Mr. Ron Boothe, Mr. J. Williams
DFAS-DE/FR	3	(Mr. M. Kennedy, Mr. J. McQuality & File)
DSAA	1	(FRONT OFFICE)
DSAA-OPERATIONS	1	(COL D. Ahern, Ms. S. Ludlow-MacMurray, Major B. Pierce, Ms. D. Woods)
DSAA-PLANS-PROGRAMS	1	(Ms. B. Rexrode)
DSAA-PLANS-PROGRAMS	1	(Mr. J. Mullins)
DSAA-COMPT	1	(Mr. J. Woods)
DSAA-COMPT-FMD	1	(Mr. R. Failor)
DSAA-COMPT-FMSCRD	1	(Mr. R. Malachowski)
DSAA-COMPT-PBD	5	(Mr. J. Breglio, Mr. J. Irwin, Mr. E. Larson, Mr. B. Johnston, & File)
TOTAL	<u>23</u>	

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 - (C) PART III (NOT REQ'D)

- (2) RECORDING & REPORTING COSTS & BENEFITS ***
 - REPORT TO CONGRESS
 - *** Note: This report will be prepared
and submitted to OSD (C) CFO upon request.

- (3) MANAGEMENT REPRESENTATION LETTERS ****
 - **** Note: This requirement has been
specified, but not defined or requested.

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FY 1992 ANNUAL FINANCIAL STATEMENT DEFENSE SECURITY ASSISTANCE AGENCY

OVERVIEW AND SUMMARY - PART I

The Defense Security Assistance Agency (DSAA) administers the military segment of U.S. Government security assistance programs.

SECURITY ASSISTANCE DEFINED

Security Assistance refers to the range of programs authorized by the Foreign Assistance Act of 1961 and the Arms Export Control Act (AECA), as amended. Security assistance is a valuable instrument of U.S. national security and foreign policy. It helps friends and allies deter and defend against aggression and shoulder more of the common defense burden. It helps maintain strong and cohesive defense arrangements with friends and allies and to secure access to important military facilities throughout the world. It promotes regional stability through arms transfer controls on the volume and types of weaponry provided to security assistance recipients. It also fosters respect for human rights, democratic values and institutions.

The military component of U.S. Government security assistance includes the following programs:

- Foreign Military Sales (FMS). FMS is the government-to-government channel for the sale of U.S. defense articles and services to eligible foreign governments and international organizations. Historically, approximately eighty percent of all sales are government-to-government. Foreign governments and international organizations, in most cases, may also purchase U.S. defense articles and services directly from U.S. commercial firms, subject to State Department's issuance of the requisite munitions export license.

- Foreign Military Financing (FMF). FMF is an appropriated aid program that makes financing available to certain U.S. friends and allies to procure U.S. defense articles and services through FMS and, for a more limited number of countries, direct commercial purchases. FMF is made available on a grant and a concessional interest rate loan basis.

- International Military Education and Training (IMET). IMET is an appropriated grant aid program that makes available professional and management education and technical training to military and civilian officials of over 100 countries.

- Excess Defense Articles (EDA). EDA of the DoD may be transferred to eligible foreign governments and international organizations on a grant basis pursuant to several authorities in the Foreign Assistance Act of 1961. EDA may also be sold at its current value through FMS.

- Emergency Drawdown Authorities. Section 506 of the Foreign Assistance Act of 1961 authorizes the President, on a grant basis, to drawdown defense articles from DoD inventories and provide defense services to foreign governments and international organizations in response to military emergencies or to provide

FY 1992 Annual Financial Statements Foreign Military Sales Trust Fund

assistance for international narcotics control, international disaster relief, or refugees.

- Special Defense Acquisition Fund (SDAF). SDAF is a revolving fund that procures defense articles and services in anticipation of later sale to foreign governments and international organizations through FMS. SDAF's annual obligation limit is established in annual appropriations legislation.

SECURITY ASSISTANCE RESPONSIBILITIES

Within the Executive Branch, the National Security Council, the Office of Management and Budget, the Department of the Treasury, the Department of Commerce, and others have responsibilities related to security assistance. However, the principal responsibilities fall to the Department of State and the Department of Defense.

The Secretary of State has statutory responsibility for security assistance policy. Simply put, the State Department determines what assistance will be provided or what sales will be made to what countries or international organizations. The Secretary of Defense has statutory responsibility for determining what defense articles or services are available for sale or transfer abroad and for implementing the military segment of security assistance programs. The Department of Defense also has significant input into the Department of State's decision making. The security assistance functions delegated to the Secretary of Defense have been redelegated to the Director, DSAA. The Director, DSAA reports to the Secretary of Defense and Deputy Secretary of Defense through the Assistant Secretary of Defense for International Security Affairs and the Under Secretary of Defense for Policy.

DSAA is primarily a policy and oversight organization; the Military Departments actually implement programs. DSAA functions include the following: coordinate formulation and execution of security assistance within DoD, including the development of DoD regulations governing security assistance programs and the DoD position on security assistance budget and legislative matters; monitor major systems sale competitions and technology transfer issues; manage all budgetary and financial arrangements associated with FMS on a cash or FMF basis; manage the IMET program; maintain the FMS and IMET data bases; implement drawdown authority transfers to foreign countries from DoD stock and transfers of excess defense articles; serve as DoD focal point for liaison with other Executive Branch agencies, Congress, and U.S. industry on security assistance matters; and supervise the organization, training, administrative support and staffing of DoD elements in foreign countries responsible for managing security assistance programs.

Accomplishing DSAA's management responsibilities with notable effectiveness would not be possible without clearly focused centralized program management supported by the decentralized logistics and services organizations of DoD. Security Assistance is multi-functional, requiring extensive interdepartmental, interagency and intradepartmental coordination and management outside of the Security Assistance management structure. DSAA

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provides the central focus, working directly with Congress, Office of Management and Budget (OMB), Department of State, Department of Treasury, National Security Council and other Executive Agencies. This central management is supported by decentralized operational activities. The Military Departments' program offices provide a subordinate structure to manage the interface of logistics, training, transportation, technology and program management of Service-unique weapons systems and organizational performance. These program offices work directly with the over 100 FMS purchasers and with their counterpart field activities to structure their Service's assistance program within DSAA guidance.

IMPLEMENTATION OF U.S. SECURITY ASSISTANCE POLICY AND OBJECTIVES

An understanding of the functions performed by DSAA is best conveyed by examining DSAA's role in the U.S. Government. The Agency is uniquely positioned to translate the goals of national security policy into the realities of defense logistical, services, procurement and financial systems and weapons systems production lines. The ability to link the broad goals of national security policy to concrete plans coordinated through these disparate realities can only be done centrally.

DSAA continues to play a central role in support of Administration policies and Congressionally legislated actions for international security assistance. Examples include the Operation Desert Shield/Desert Storm and Operation Provide Comfort efforts. In critical international situations, past and ongoing international security relationships have proven to be essential in providing the foundation for implementation of U.S. foreign policy and international security.

*** During FY 1992, DSAA continued to work with our allies from the Desert Shield/Desert Storm operation and others to help them enhance their defense capabilities. Approximately \$3 billion of foreign military sales were undertaken with Egypt, Saudi Arabia, Kuwait, United Arab Emirates, and Turkey, which will lead to considerable enhancement of the air and land forces capabilities of these countries. In the case of Turkey, their major purchase of additional F-16 C/D aircraft is being facilitated financially by the implementation by DSAA of a third party contributory account whereby Desert Shield/Desert Storm allies will make available more than \$2 billion dollars which when combined with Turkish national funds will help to finance this purchase as well as anticipated follow-on buys.

In FY 1992, the Foreign Military Financing and International Military Education and Training (IMET) Program appropriations were significantly reduced from FY 1991 funding. This required significant restructuring of the security assistance grant programs and very close focus on the utility of our funding allocations. Nevertheless, we have distributed the shortfalls as equitably as possible to maintain viable security assistance relationships. In the case of IMET, we have expanded training assistance to include ten former communist block nations including Russia and the Ukraine from the former Soviet Union. These initial programs open up our military-to-military relations and will form a solid basis for the evolving security assistance relationships which are determined to be in our best interests.

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FY 1992 Annual Financial Statements Foreign Military Sales Trust Fund

*** During FY 1992, DSAA initiated and conducted what will be a continuing program of in-depth country financial reviews. These reviews take a comprehensive look at the financial status of a country's Foreign Military Sales cases, with a view towards identifying funds (U.S. Security Assistance Financing or the country's national funds) which could be freed up and reallocated to other uses. The FY 1992 reviews for African, Caribbean nations, and Korea identified close to \$100 million for reallocation.

Also during FY 1992, the newly designated Foreign Military Loan Liquidating Account (FMLLA) disbursed \$541 million of additional loan funds on behalf of foreign purchasers and \$125 million in guaranty payments on defaulted loans. During the same period, it collected \$1,407 million in principal, interest and late charges on all receivables, of which the fund returned \$652 million to the Treasury Miscellaneous Receipts Account and 'paid' \$647 million to the Federal Financing Bank (FFB). The fund recognized \$275 million in accrued interest and penalty revenue.

*** **DSAA'S EVOLVING INTERNATIONAL SECURITY ASSISTANCE ROLE**

An extension of the DSAA role was the stimulation and building of international and domestic consensus for international security issues. DSAA has guided sensitive negotiations in support of the Japanese FSX fighter program to protect U.S. technology advantages, while assisting the Japanese in acquiring a mainline air defense system. This should strengthen the defense and economic bonds between our countries. DSAA oversight of negotiations during the formulation of the Korean Fighter Program was instrumental in protecting U.S. economic interests, while meeting the Korean Defense Forces needs, culminating in the FY 1992 F-16 aircraft coproduction sale valued at more than \$2.1 billion. Similar benefits were associated with the F/A-18 aircraft sale to Finland.

In addition, DSAA has provided essential leadership in maintaining the bridge between foreign security assistance requirements and maintenance of U.S. production capability. The continued long-term operation of numerous production and rebuild lines for major items of defense equipment are heavily impacted by, or dependent on, continued international security agreements. Some examples are:

- | | |
|----------------------|----------------------|
| * M1A2 and M60 Tanks | * UH-1 Helicopters |
| * 2 1/2-ton Trucks | * UH-60 Helicopters |
| * HAWK Missiles | * F-15 Fighters |
| * HARPOON Missiles | * F-16 Fighters |
| * MARK 46 Torpedoes | * F-18 Fighters |
| * Patriot Missiles | * MLRS Rocket System |
| * AH-1 Helicopters | |

These supplements to the production base tangibly reduce the U.S. taxpayers' cost of maintaining the defense production base, while providing economic benefits to the U.S. work force and local communities where production lines operate.

FY 1992 Annual Financial Statements Foreign Military Sales Trust Fund

SPECIFIC DSAA FUNCTIONS

DSAA is involved in numerous managerial and administrative functions relative to implementing the Security Assistance Programs. Highlights follow:

- * Develop the Congressional Presentation Document (including the extensive classified annex for reprogramming), to include the consolidated operational assessment of countries needs for equipment, training, support, financing and technology. DSAA provides central management, since the nine implementing agencies cannot individually consolidate or prioritize sales and grant requirements or reconcile these requirements to country financial resources. Examples are: Priority of distribution of excess defense equipment among various purchasers and priority of delivery of weapons systems, such as: F-16 fighter; F-18 fighter; Multiple Launch Rocket System (MLRS); and AH-64 helicopter.

- * Collect and report security assistance plans and performance under statutory requirements for the Congressional Presentation Document, Congressional security assistance surveys, Congressional Reports on commercial and military exports, and reports on FMS price and availability.

- * Develop, defend and manage requirements and resources for the over 60 countries which receive appropriated loan and grant funds assistance. Priority of appropriated fund allocations are coordinated by DSAA with other DoD offices, State and OMB throughout the programming and budgeting cycle. Execution of the program is managed singularly by DSAA. Examples are: Priority of allocation of International Military Education and Training (IMET) and Foreign Military Financing (FMF) funding among countries such as Philippines, Portugal, Turkey, and Central America.

- * Develop, present and coordinate transfers of defense articles under Sections 506(a)(2) of the Foreign Assistance Act for Colombia, Mexico, and Pakistan.

- * Negotiate, coordinate and provide representation with Department of State, Commerce, Treasury, OMB and Congress on political, program, and financial issues involving foreign assistance. Issues are as various as: (1) rescheduling and forgiveness of FMF debts for approved countries; (2) coordinating Southern Regional Amendment transfers; (3) negotiating terms and technology of weapon systems sales; (4) coordinating international narcotics control assistance; and (5) control of country ceilings for Taiwan, Greece, and Turkey.

- * Program, budget, and execute: the multi-billion dollar annual Foreign Military Financing Program (including billing and collection for the \$22 billion of repayable principal and interest); the \$43 million annual International Military Education and Training (IMET) Program; the \$9 billion dollar Foreign Military Loan Liquidating Account; the \$1.07 billion Special Defense Acquisition Fund; the multi-billion Foreign Military Sales Trust Fund; the \$300 million annual administrative fee budget; and other FMS surcharge accounts.

FY 1992 Annual Financial Statements Foreign Military Sales Trust Fund

- * Approve and financially execute commercial contracts totaling over \$1.1 billion annually under the Foreign Military Financing Program for ten Congressionally authorized countries.

- * Approve, coordinate, and notify the proper authorities of sales and transfers that are subject to Presidential, Department of State, and Congressional approval.

- * Coordinate, prioritize and approve procurement programs within the Special Defense Acquisition Fund for missiles, UH-1H Helicopter Refurbishment, ammunition, and vehicles to reduce the diversion of DoD equipment.

- * Staff and care for the worldwide Security Assistance Organizations in over 70 countries, providing manpower, funding, and policy.

- * Standardize DoD Security Assistance Policy and Performance in multi-functional areas, such as: sales preparation, presentation, approval and performance; logistics; financial; training; technology; leases; and information reporting.

***** SALES, REVENUE, AND COST MANAGEMENT**

Fiscal years 1991 and 1992 Foreign Military Sales were among the highest levels of activity ever experienced in security assistance, totaling over \$39 billion, which is equivalent to twenty percent of all currently active sales cases. World-wide manpower resources for administration of the sales program have decreased eight percent.

Through more disciplined management of administration resources, DSAA has improved the matching of costs to revenues. Since 1988, the cash position of the sub-accounts that finance the administration of the Security Assistance Program has improved by over \$300 million, with a net balance at the end of FY 1992 totaling nearly \$400 million.

***** COMMERCIAL FUNCTIONS, REVOLVING FUNDS, AND TRUST FUNDS REPORTED**

DSAA was established as a separate agency of the DoD to administer the military assistance component of the nation's security assistance programs. In fulfilling this mission, DSAA has managerial and administrative responsibility for: the Foreign Military Sales (FMS) Trust Fund; the Foreign Military Financing Program Account; the Foreign Military Loan Liquidating Account; the Foreign Military Financing Direct Loan Financing Account; the Special Defense Acquisition Fund (SDAF); and the Guaranty Reserve Fund (GRF).

FOREIGN MILITARY SALES (FMS) TRUST FUND. The FMS Trust Fund, Account 8242, was established as a means of facilitating the purchases of U.S. defense articles and services by foreign countries, as authorized in the Arms Export Control Act (AECA). The Trust Fund provides a vehicle through which the United States Government processes foreign country funds required for FMS case payments to U.S. contractors for new procurement, and to Department of Defense (DoD) components for sales from DoD stocks.

FY 1992 Annual Financial Statements Foreign Military Sales Trust Fund

SPECIAL DEFENSE ACQUISITION FUND (SDAF). The SDAF, Account 4116, was authorized by the International Security and Development Cooperation Act of 1981. The SDAF is a revolving fund under the control of the DoD which finances the acquisition of defense articles and services in anticipation of their transfer (pursuant to the AECA), to eligible foreign nations and international organizations. The SDAF account is replenished from the proceeds of sales of items purchased by the account.

FOREIGN MILITARY FINANCING PROGRAM ACCOUNT (FMFPA). This account is not being reported, however, the following narrative is provided to reflect its relationship to the Foreign Military Financing Direct Loan Financing Account 4122. The FMFPA, Account 1085, was established by the Credit Reform Act as an appropriated fund account to provide the funding necessary to finance the subsidy element of the loan program. Expenditures from this account finance the subsidy element of direct loan disbursements and are transferred into the Foreign Military Financing Direct Loan Financing Account (Account 4122) to make the required loan disbursements for approved FMS or commercial sales.

GUARANTY RESERVE FUND (GRF). The GRF, Account 4121, was established by Congress to provide a guaranty against country loan arrearages or defaults on the repayment of loans due to the Federal Financing Bank (FFB) and commercial banks. The nature and purpose of this account was changed on October 1, 1991, by implementation of the Credit Reform Act. It has now been replaced by the Foreign Military Loan Liquidating Account.

FOREIGN MILITARY LOAN LIQUIDATING ACCOUNT (FMLLA). The FMLLA, Account 4121, was established under the Credit Reform Act. Consolidated into this symbol were all assets, liabilities, and equities for loan balances previously recorded in accounts 11*1082, 11M1083, 11M1084, and 11X4121. This account disburses funds previously made available and accounted under the previously mentioned accounts.

FOREIGN MILITARY FINANCING DIRECT LOAN FINANCING ACCOUNT (FMFDLFA). The FMFDLFA, Account 4122, was established under the Credit Reform Act. The establishment of this account provides the vehicle for making disbursement of Foreign Military Loan funds for approved procurements and for subsequent collection of debt service due for the loans. The account uses permanent borrowing authority from the Treasury, combined with transfers of appropriated funds from account 1085 to make the required disbursements for loan recipient countries for their FMS or commercial procurements. Receipts of debt service payments from borrowers are used to repay the borrowings from Treasury.

***** ACCOUNTING RESPONSIBILITIES FOR THE FUNDS**

The Defense Finance and Accounting Service - Denver, Security Assistance Accounting Center (SAAC), provides centralized accounting services for the FMS Trust Fund and the SDAF activity. Accounting for the FMFLA, FMFPA, and FMFDLFA and the executive agency portion of the SDAF is performed by DSAA. All accounts use approved DoD general ledger accounts and automated accounting systems in accordance with Title 2. DSAA's accounting

FY 1992 Annual Financial Statements Foreign Military Sales Trust Fund

responsibilities are scheduled to be transferred to the Defense Finance and Accounting Service during FY 1993.

KEY ACCOUNTING CHANGES

During FY 1992, several key accounting changes were implemented. Although these changes were not completely separate and discrete from each other, they fall into three general categories: Credit Reform; SDAF Accounting; and SDAF Inventory.

CREDIT REFORM. During FY 1992, new accounting procedures prescribed by the Credit Reform Act of 1990 were implemented. These changes included the transfer of \$1,900 million of obligated and unobligated balances and \$8,897 million of loans and accounts receivable balances from the Foreign Military Financing Grants Account (11X1082) to the Foreign Military Loan Liquidating Account (11*4121). In addition, two new accounts, the Foreign Military Financing Program Account (11X1085) and the Foreign Military Financing Direct Loan Financing Account (11*4122), were established.

SDAF ACCOUNTING. Beginning with FY 1992, SDAF implemented within its existing accrual accounting process, an accounting procedure that more closely matches the actual operation of the fund. This procedure, known as the 'completed contract method of accounting,' recognizes that a single procurement contract represents a discrete aggregation of effort which best embodies the recordable activity of the fund, and that final costs on a procurement contract cannot be determined until the contract is legally complete and closed. Upon contract closure, all expenses are matched with the appropriate revenues.

SDAF INVENTORY. The SDAF inventory valuation was based on actual amounts reported by the Military Departments since these assets are controlled and managed by these agencies. This method of reporting replaced the previous method, which included both the constructive work-in-process and inventory held by the Military Departments.

FY 1992 Annual Financial Statements Foreign Military Sales Trust Fund

"DSAA PROGRAM PERFORMANCE INDICATORS - PART I"

FOREIGN MILITARY SALES TRUST FUND, ACCOUNT 8242

Title: New Sales Cases Accepted and Amendments Processed

FY 1992 ACTIVITY	<u>ARMY</u>	<u>NAVY</u>	<u>USAF</u>	<u>OTHER</u>	<u>TOTAL</u>
NEW FY 1992 SALES CASES	906	658	605	271	2,440
CASE AMENDMENTS-ALL YEARS	174	135	97	8	414
TOTAL	1,080	793	702	279	2,854

FY 1991 ACTIVITY	<u>ARMY</u>	<u>NAVY</u>	<u>USAF</u>	<u>OTHER</u>	<u>TOTAL</u>
NEW FY 1991 SALES CASES	1,156	695	667	310	2,828
CASE AMENDMENTS-ALL YEARS	223	121	112	9	465
TOTAL	1,379	816	779	319	3,293

Narrative:

This performance indicator shows the number of new sales cases implemented and the number of case amendments processed to existing cases during each fiscal year. While amendments are identified to the original case, they are not identified to the fiscal year of the original case/sale. Several amendments during the multiple-year life of any case is considered reasonable. The statistical decline during FY 1992 is normal following the increase caused by the Desert Shield/Desert Storm military operation of FY 1991.

FY 1992 Annual Financial Statements Foreign Military Sales Trust Fund

"DSAA PROGRAM PERFORMANCE INDICATORS - PART I"

FOREIGN MILITARY SALES TRUST FUND, ACCOUNT 8242

Title: Ordered Value of New & Amended Sales Cases by Major Category

DOLLARS IN THOUSANDS (\$ X 000)

FY 1992 ACTIVITY	ARMY	NAVY	USAF	OTHER	TOTAL
Aircraft	732,837	2,914,386	4,334,059	318	7,981,600
Missiles	509,257	339,723	292,064	120,732	1,261,776
Ships	0	178,628	0	104	178,732
Vehicles & Weapons	391,774	94,383	179,629	8,432	674,218
Ammunition	60,134	104,309	70,508	13,995	248,946
Training	151,929	141,588	410,188	112	703,817
Miscellaneous/Other	1,457,313	1,215,381	1,377,703	72,261	4,122,658
TOTAL	3,303,244	4,988,398	6,664,151	215,954	15,171,747

FY 1991 ACTIVITY	ARMY	NAVY	USAF	OTHER	TOTAL
Aircraft	510,015	555,799	3,530,599	199	4,596,612
Missiles	1,070,180	490,928	85,111	21,214	1,667,433
Ships	42,650	239,898	0	0	282,548
Vehicles & Weapons	4,408,670	341,034	6,487	149	4,756,340
Ammunition	544,847	61,058	152,953	17,864	776,722
Training	178,331	458,891	283,506	181	920,909
Miscellaneous/Other	4,637,680	1,848,478	4,073,332	227,531	10,787,021
TOTAL	11,392,373	3,996,086	8,131,988	267,138	23,787,585

Narrative:

This indicator classifies the various kinds of execution activities and shows the distribution of major weapon sales cases among the Implementing Agencies

FY 1992 Annual Financial Statements Foreign Military Sales Trust Fund

"DSAA PROGRAM PERFORMANCE INDICATORS PART I"

FOREIGN MILITARY SALES TRUST FUND, ACCOUNT 8242

Title Sales Cases Closed

	<u>ARMY</u>	<u>NAVY</u>	<u>USAF</u>	<u>OTHER</u>	<u>TOTAL</u>
FY 1992 ACTIVITY					
CASES CLOSED FOR ALL YEARS	1,140	576	660	360	2,736

	<u>ARMY</u>	<u>NAVY</u>	<u>USAF</u>	<u>OTHER</u>	<u>TOTAL</u>
FY 1991 ACTIVITY					
CASES CLOSED FOR ALL YEARS	1,099	507	679	358	2,643

Narrative

This indicator demonstrates the number of Sales Cases "Closed" during the fiscal year. The "closure" of a sales case, like the completion of a legal contract, occurs when all the terms have been met. Sales Cases must be legally, logistically, and financially "complete" prior to closure.

FY 1992 Annual Financial Statements Foreign Military Sales Trust Fund

"DSAA PROGRAM PERFORMANCE INDICATORS - PART I"

FOREIGN MILITARY SALES TRUST FUND, ACCOUNT 8242

Title Aged Number of Sales Cases Closed

FY 1992 ACTIVITY	<u>ARMY</u>	<u>NAVY</u>	<u>USAF</u>	<u>OTHER</u>	<u>TOTAL</u>
AGE: 0-5 Years	575	208	304	206	1,293
AGE: 6-10 Years	494	291	246	126	1,157
AGE: 11-15 Years	62	69	90	27	248
AGE: 16-20 Years	9	8	19	1	37
AGE: 20+ Years	0	0	1	0	1
TOTAL	1,140	576	660	360	2,736

FY 1991 ACTIVITY	<u>ARMY</u>	<u>NAVY</u>	<u>USAF</u>	<u>OTHER</u>	<u>TOTAL</u>
AGE: 0-5 Years	550	196	305	220	1,271
AGE: 6-10 Years	445	236	278	127	1,086
AGE: 11-15 Years	86	69	81	11	247
AGE: 16-20 Years	18	6	13	0	37
AGE: 20+ Years	0	0	2	0	2
TOTAL	1,099	507	679	358	2,643

Narrative:

This performance indicator reveals the age or "life cycle" of the sales cases closed. The average 6+ year life of a case is directly attributable to its complexity. Major Weapon Systems Procurements, such as aircraft and construction cases, require more time to execute and complete financial closeout than does logistics and training cases

FY 1992 Annual Financial Statements Foreign Military Sales Trust Fund

"DSAA PROGRAM PERFORMANCE INDICATORS - PART I"

FOREIGN MILITARY SALES TRUST FUND, ACCOUNT 8242

Title Number of Open Cases as of Fiscal Year End

SEPTEMBER 30, 1992 POSITION	<u>ARMY</u>	<u>NAVY</u>	<u>USAF</u>	<u>OTHER</u>	<u>TOTAL</u>
NUMBER OF CASES OPEN	8,245	6,344	5,684	1,366	21,639

SEPTEMBER 30, 1991 POSITION	<u>ARMY</u>	<u>NAVY</u>	<u>USAF</u>	<u>OTHER</u>	<u>TOTAL</u>
NUMBER OF CASES OPEN	8,479	6,262	5,739	1,455	21,935

Narrative:

This performance indicator shows the number of active FMS Sales Cases at the end of each fiscal year. The September 30, 1991 position was restated to reconcile and correct current FY 1992 activity as of September 30, 1992.

FY 1992 Annual Financial Statements Foreign Military Sales Trust Fund

"DSAA FINANCIAL PERFORMANCE INDICATORS - PART I"

FOREIGN MILITARY SALES TRUST FUND, ACCOUNT 8242

Title OPERATING RESULTS

DOLLARS IN THOUSANDS (\$ X 000)

FY 1992 ACTIVITY	<u>TOTAL</u>
Funds Appropriated: Total Revenues and Financing Sources	\$ 0
Less: Net Operating Costs: Total Expenses	<u>.0</u>
Operating Results: Net Position, Ending Balance	\$ 0

FY 1991 ACTIVITY	<u>TOTAL</u>
Funds Appropriated: Total Revenues and Financing Sources	\$ 0
Less: Net Operating Costs: Total Expenses	<u>.0</u>
Operating Results: Net Position, Ending Balance	\$ 0

Narrative:

The FMS Trust Fund accounts only for amounts on a cash basis in a fiduciary capacity on behalf of its clients

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FY 1992 Annual Financial Statements Foreign Military Sales Trust Fund

"DSAA FINANCIAL PERFORMANCE INDICATORS - PART I"

FOREIGN MILITARY SALES TRUST FUND, ACCOUNT 8242

Title FINANCIAL OBLIGATIONS, RATIO OF ASSETS TO LIABILITIES

DOLLARS IN THOUSANDS (\$ X 000)

FY 1992 END OF YEAR POSITION	<u>TOTAL</u>
Assets	21,790,089
Liabilities	21,790,089
Ratio	1 : 1

FY 1991 END OF YEAR POSITION	<u>TOTAL</u>
Assets	19,976,907
Liabilities	19,976,907
Ratio	1 : 1

FY 1992 Annual Financial Statements Foreign Military Sales Trust Fund

"DSAA FINANCIAL PERFORMANCE INDICATORS - PART I"

FOREIGN MILITARY SALES TRUST FUND, ACCOUNT 8242

Title FINANCIAL SOLVENCY CONDITION: Trust Fund and Interest Bearing Account Balances

DOLLARS IN MILLIONS (\$ X 000,000)

BALANCES AS OF SEPTEMBER 30, 1992	<u>SAAC</u>
Treasury Cash Balance for Account 8242	\$5,516.9
Interest Bearing Accounts	6,669.8
Accounts Receivable	8,603.3
Accounts Payable	<u>-182.1</u>
TOTAL	\$21,608.0

BALANCES AS OF SEPTEMBER 30, 1991	<u>SAAC</u>
Treasury Cash Balance for Account 8242	\$6,776.7
Interest Bearing Accounts	5,187.0
Accounts Receivable	8,013.3
Accounts Payable	<u>-181.7</u>
TOTAL	\$19,795.3

Narrative

Foreign Military Sales (FMS) Trust Fund Accounting is managed by the Security Assistance Accounting Center (SAAC) to ensure sufficient customer funds are on hand to meet the daily cash requirements of the military departments.

During FY 1992, approximately \$12,439.8 Million was disbursed to implement customers' orders. This requirement, compared to the cash and interest bearing account balances, yields a "quick cash ratio" of 1.06 : 1 for the fund (cash to requirements). The liquidity ratio was 1.73 : 1 and was calculated as total cash available, plus receivables, minus payables, compared to FY 1992 cash disbursement requirements.

FY 1992 Annual Financial Statements Foreign Military Sales Trust Fund

"DSAA FINANCIAL PERFORMANCE INDICATORS - PART I"

FOREIGN MILITARY SALES TRUST FUND, ACCOUNT 8242

Title OPERATING COSTS

DOLLARS IN MILLIONS (\$ X 000,000)

FY 1992 End of Year Position	<u>TOTAL</u>
Net Operating Costs	\$0
Revenues and Reimbursements	0
Less: Total Expenses and Losses	<u>0</u>
Cost of Operating a Program	\$0
 FY 1991 End of Year Position	 <u>TOTAL</u>
Net Operating Costs	\$0
Revenues and Reimbursements	0
Less: Total Expenses and Losses	<u>0</u>
Cost of Operating a Program	\$0

FY 1992 Annual Financial Statements Foreign Military Sales Trust Fund

"DSAA FINANCIAL PERFORMANCE INDICATORS - PART I"

FOREIGN MILITARY SALES TRUST FUND, ACCOUNT 8242

Title REIMBURSEMENT OF DoD FOR ARTICLES AND SERVICES

DOLLARS IN MILLIONS (\$ X 000,000)

FY 1992 ACTIVITY	<u>TOTAL</u>
COLLECTIONS IN U S DOLLARS	\$12,182.0

FY 1991 ACTIVITY	<u>TOTAL</u>
COLLECTIONS IN U S DOLLARS	\$11,697.4

Narrative:

Collections into the Trust Fund during FY 1992 were greater than anticipated due to an increase in the number and amount of Foreign Military Sales cases and their required initial cash deposits. Arrearages for FY 1992 were \$950,267.00, or 0.008% of collections. During FY 1991, arrearages were \$519,655.00, or 0.004% of collections.

FY 1992 Annual Financial Statements Foreign Military Sales Trust Fund

**FY 1992 ANNUAL FINANCIAL STATEMENT
DEFENSE SECURITY ASSISTANCE AGENCY**

NOTES/FOOTNOTES TO THE PRINCIPAL STATEMENTS - PART III

**PART III
NOTES/FOOTNOTES TO THE PRINCIPAL STATEMENTS**

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Change 1, Mar. 93

FY 1992 Annual Financial Statements Foreign Military Sales Trust Fund

FY 1992 ANNUAL FINANCIAL STATEMENT DEFENSE SECURITY ASSISTANCE AGENCY

NOTES TO THE PRINCIPAL STATEMENTS

Note 1. Significant Accounting Policies.

A. REPORTING ENTITY.

*** DEFENSE SECURITY ASSISTANCE AGENCY (DSAA). The DSAA was established as a separate agency of the Department of Defense (DoD) to administer the nation's Security Assistance Programs. In fulfilling this mission, DSAA has administrative responsibility for the Foreign Military Sales (FMS) Trust Fund, the Special Defense Acquisition Fund (SDAF), the Foreign Military Loan Liquidating Account (FMLLA), and the Foreign Military Financing Direct Loan Financing Account (FMFDLFA). Also, there are other financial accounts that comprise the remainder of the military components of Security Assistance.

*** FMS TRUST FUND, TREASURY SYMBOL CODE 8242. The FMS Trust Fund was established as a means of facilitating the purchases of U.S. defense articles and services by foreign countries, as authorized in the Arms Export Control Act (AECA). The Trust Fund provides a vehicle through which the United States Government processes foreign country funds required for FMS case payments to U.S. contractors for new procurement, and to components for sales from DoD stocks.

SPECIAL DEFENSE ACQUISITION FUND (SDAF), TREASURY SYMBOL CODE 4116. The SDAF was authorized by the International Security and Development Cooperation Act of 1981. The SDAF is to be used as a revolving fund under the control of the DoD to finance the acquisition of defense articles and services in anticipation of their transfer (pursuant to the AECA, the Foreign Assistance Act (FAA), or other legislation) to eligible foreign nations and international organizations. The SDAF account is reimbursed through sales and transfers of items carried in the account.

FOREIGN MILITARY FINANCING PROGRAM ACCOUNT (FMFPA), TREASURY SYMBOL CODE 1085. The Credit Reform Act establishment of this appropriated fund account is to provide the funding necessary to finance the subsidy element of the loan program. Expenditures from this account finance the subsidy element of direct loan disbursements and are transferred into the Foreign Military Financing Direct Loan Financing Account (4122) to make required loan disbursements for approved FMS or commercial sales. For the purpose of this report, FMFPA accounting transactions, to the extent they are relevant to the 4122 account, are included in the data reported for the 4122 account.

FOREIGN MILITARY LOAN LIQUIDATING ACCOUNT (FMLLA), TREASURY SYMBOL CODE 4121. The Credit Reform Act consolidated into this symbol: all assets, liabilities, and equities for loan balances previously recorded in accounts 11*1082, 11M1083, 11M1084, and 11X4121. This account disburses funds previously made available and accounted via the above referenced accounts.

FY 1992 Annual Financial Statements Foreign Military Sales Trust Fund

FY 1992 ANNUAL FINANCIAL STATEMENT DEFENSE SECURITY ASSISTANCE AGENCY

FOREIGN MILITARY FINANCING DIRECT LOAN FINANCING ACCOUNT (FMFDLFA), TREASURY SYMBOL CODE 4122. The Credit Reform Act resulted in the establishment of this account to provide the vehicle for making disbursements of Foreign Military Loan funds for approved procurements and for subsequent collection of debt service due for the loans. The account uses permanent borrowing authority from the Treasury combined with transfers of appropriated funds from account 1085 to make the required disbursements for loan recipient countries for their FMS or commercial procurements. Receipts of debt service payments from borrowers are used to repay the borrowings from Treasury.

*** B. ACCOUNTING STANDARDS.

These financial statements are presented in accordance with the DoD Accounting Manual, which prescribes the accrual basis as the basis of accounting to be used by DoD Components.

*** C. BUDGETARY ACCOUNTING PRACTICES.

The FMS program operates using contract authority. Contract authority is statutory authority to incur obligations prior to an appropriation (or the realization of revenues) for the future payment of such obligations. For the FMS program, 82 Statute 1323 (22 U.S.C. 2762) establishes its permanent indefinite authority. The total value of implemented cases is the only limiting factor in the total amount of obligations that can be incurred.

The SDAF is a revolving budget account. Congress enacts an annual program authority amount that is available for obligation for a three year period. Money to finance the approved annual program comes from sales and transfers of items purchased by the fund.

D. BASIS OF ACCOUNTING.

Transactions are recorded on an accrual accounting basis and a budgetary basis. Under the accrual method, revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal constraints and controls over the use of federal funds.

*** E. REVENUES AND OTHER FINANCING SOURCES.

While the Congress appropriates some funds to finance portions of the Security Assistance Program via the Foreign Military Financing appropriation, the majority of sales are funded from customers' funds.

In accordance with the DoD Acting Chief Financial Officer's memorandum of August 31, 1992, the FMS Trust Fund does not recognize nor report revenue. Funds collected into the Trust Fund are in advance of the performance of services or sale of goods. Since

FY 1992 Annual Financial Statements Foreign Military Sales Trust Fund

FY 1992 ANNUAL FINANCIAL STATEMENT DEFENSE SECURITY ASSISTANCE AGENCY

various DoD components actually perform the services and sell the goods, recognition of revenue and expense occurs in the financial statements of the applicable DoD components. The financing source for both FMLLA and FMFDLFA are Congressional appropriations.

***** F. ACCOUNTING FOR INTRA-GOVERNMENTAL ACTIVITIES.**

The Security Assistance Program, as an activity of DoD, interacts with, and is dependent upon, other financial activities of the government as a whole. In FY 1992, the Department or its Components sold assets to foreign governments under the provisions of the Arms Export Control Act of 1976. Customers are required to make payments, in advance, to the FMS Trust Fund. The Trust Fund then reimburses, directly or indirectly, the Military Services for the cost of administering and executing the sales program. The indirect reimbursement is in the form of allowing the Military Services to cite the Trust Fund on appropriate budgetary and expenditure documents. During fiscal year 1992, the Trust Fund reimbursed the Military Services in the amount of \$12,439,844 thousand for assets and services sold under the FMS Program.

***** G. FUNDS WITH U.S. TREASURY AND CASH.**

There are several banking relationships involved in administering, and fiduciary responsibilities associated with, the accounting for security assistance funds. Some funds are held in treasury accounts, others are with the Federal Reserve Bank, and still others are with commercial banks. As of September 30, 1992, the Security Assistance Program has a balance of \$8,775,587 thousand in the U.S. Treasury, and \$6,676,847 thousand on deposit with the Federal Reserve Bank and other commercial banks.

H. FOREIGN CURRENCY.

All payments and collections involved in the Security Assistance Program are accounted for in U.S. Dollars.

I. ACCOUNTS RECEIVABLE.

As presented in the consolidated statement of financial position, accounts receivable includes accounts, claims, and refunds receivable. The Security Assistance Program, as of September 30, 1992, has a net accounts receivable as follows:

FY 1992 Annual Financial Statements Foreign Military Sales Trust Fund

FY 1992 ANNUAL FINANCIAL STATEMENT DEFENSE SECURITY ASSISTANCE AGENCY

Dollars in Thousands (\$ X 000)

ACCOUNTS RECEIVABLE	AMOUNT	TOTAL NET
Government	\$ 25,932	\$ 25,932
Public	8,971,509	8,971,509
Refunds	0	0
Claims	0	0
Total	<u>\$8,997,441</u>	<u>\$8,997,441</u>

*** The FMS Trust Fund's \$8,602,243 thousand portion of the public receivable is based upon its requirement to bill in advance of providing goods and services as established in the Arms Export Control Act of 1976. The amount billed to customers on DD Form 645, adjusted for both special bill arrangements and individual cases that have collections in excess of financial requirements, is the basis for the trust fund's accounts receivable value.

J. LOANS RECEIVABLE.

Loans are accounted for as receivable after funds have been disbursed. The amount of loans obligated but not disbursed are disclosed in Note 6.

K. INVENTORIES.

*** The FMS Trust Fund has no inventory. Items are either delivered directly to the FMS customer from the contractor, or in the case of FMS sales from U.S. stocks, they are retained as inventory in the procurement or stock fund accounts of the military departments until transferred to the ownership of the foreign customer.

Inventory in SDAF is controlled and managed by the various military departments. The SDAF inventory value is acquisition cost as reported to the DSAA by the military department. See Note 5 for specific information.

L. INVESTMENTS IN U.S. GOVERNMENT SECURITIES.

*** The Security Assistance Program does not invest in U.S. government securities.

FY 1992 Annual Financial Statements Foreign Military Sales Trust Fund

FY 1992 ANNUAL FINANCIAL STATEMENT DEFENSE SECURITY ASSISTANCE AGENCY

*** M. PROPERTY AND EQUIPMENT.

The funds and accounts that make up the Security Assistance Program have no property or equipment values. For the FMS trust fund, this policy was established by the DoD Acting Chief Financial Officer memorandum of August 31, 1992.

N. PREPAID AND DEFERRED CHARGES.

The prepayment for SDAF represents payments made to contractors where inventory has not yet been delivered. All payments are posted as a pre-paid asset. FMS trust fund 'progress payments to contractors' are accounted for by using the constructive delivery method and, accordingly, are identified as an expenditure at the time of payment.

O. BORROWINGS PAYABLE TO TREASURY.

The FMLLA portion of the Security Assistance Program has borrowed funds from the Treasury for disbursement under a valid loan program. Detailed information concerning borrowing is identified in Note 16.

*** P. CONTINGENCIES.

The Security Assistance Program is obligated for goods and services, which have been ordered but not yet received (i.e., undelivered orders) as of September 30, 1992, in the amount of \$23,083,293 thousand. Within that total, \$22,676,383 thousand is attributable to the FMS trust fund and \$406,910 thousand is attributable to SDAF.

Neither the FMS Trust Fund nor the SDAF is a party to any administrative proceedings, legal actions, or any other types of claims.

*** Q. ACCRUED LEAVE.

No fund included in these statements records any accrual of unpaid leave.

*** R. EQUITY.

The FMS Trust Fund has no net position. In his memorandum of August 31, 1992, the DoD Acting Chief Financial Officer stated that the FMS Trust Fund is a trust fund requiring DoD to act in a fiduciary capacity on behalf of its customers. All revenue, expense, and operational reporting for the program is the responsibility of the Military Departments. Accordingly, the FMS Trust Fund accounts only for dollars in and dollars out on a cash basis and has no net position.

FY 1992 Annual Financial Statements Foreign Military Sales Trust Fund

FY 1992 ANNUAL FINANCIAL STATEMENT DEFENSE SECURITY ASSISTANCE AGENCY

Equity in SDAF is not to exceed the capitalized amount of \$1,070,000 thousand. Any excess resulting from operation of the fund is transferred to the miscellaneous receipts account.

The FMFDLFA equity position consists of unexpended appropriations. The FMLLA and SDAF equity positions consist of invested capital. All equity information is contained in Note 16.

S. COMPARATIVE DATA.

Comparative data for the prior year has not been presented because this is the first year for which financial statements are prepared using the Office of Management and Budget format and would require a complete recasting of prior year's data. In future years, comparative data will be presented in order to provide an understanding of changes in the financial position and operations of the Department's reporting activities.

*** Note 2. Fund Balances with Treasury, Cash and Foreign Currency.

Dollars in Thousands (\$ X 000)

A. Fund Balances with Treasury.

(1) Trust Funds	\$6,516,948
(2) Revolving Funds	2,208,491
(3) Appropriated Funds	50,148
(4) Other Fund Types	
Total	<u>\$8,775,587</u>

B. Cash.

(1) Restricted Cash	\$7,000
(2) Unrestricted Cash	<u>6,669,847</u>
Total	<u>\$6,676,847</u>

C. Foreign Currency.

\$0

D. Other Information.

\$1,324,359 thousand of A(2) is attributable to 11X4121. Account 11X4121 is not a revolving fund, but it is a liquidating fund. Treasury instructed DSAA to classify 11X4121 as a revolving fund.

The \$50,148 thousand on A(3) is included in the 1121085 account and is applicable to 11X4122. DSAA was instructed by Treasury to classify these funds as appropriated.

FY 1992 Annual Financial Statements Foreign Military Sales Trust Fund

FY 1992 ANNUAL FINANCIAL STATEMENT DEFENSE SECURITY ASSISTANCE AGENCY

The value stated in B(2) is for the FMS Trust Fund. There are several banking relationships involved in administering, and fiduciary responsibility, of security assistance funds. Some funds are held in treasury accounts, others are held by the Federal Reserve Bank, and still others are held by commercial banks. Cash balances are in agreement with the September 30, 1992, Treasury, Federal Reserve Bank, and commercial bank balances.

*** Note 3. Other Monetary Assets.

The Security Assistance Program has no other monetary assets.

*** Note 4. Investments. NONE

*** Note 5. Inventories.

A. Inventory Categories.

Dollars in Thousands (\$ X 000)

Inventory Categories	Inventory Amount	Allowance for Losses	Inventory, Net	Valuation Method
(1) Inventory Held for Sale	\$179,387	\$ 0	\$179,387	e
(2) Inventory Not Held for Sale				
(a) Material and Goods for Own Use	0	0	0	
(b) Stockpile Materials	0	0	0	
(c) Other	0	0	0	
Subtotal	0	0	0	
Total	\$179,387	\$ 0	\$179,387	

B. Restrictions on Inventory Use, Sale, or Disposition.

SDAF inventory must be used for transfers in security assistance programs unless approved by SECDEF for sale to Military Departments.

C. Other Information.

All inventory belongs to SDAF. The valuation, as reported by the military departments, is the acquisition cost of items on hand at installation level not identified to a specific sale to a foreign customer.

FY 1992 Annual Financial Statements Foreign Military Sales Trust Fund

FY 1992 ANNUAL FINANCIAL STATEMENT DEFENSE SECURITY ASSISTANCE AGENCY

Note 6. Loans and Loan Guarantees. Non Federal.

A. The entity operates the following loan and/or loan guarantee programs.

- | | |
|--|---|
| (1) Pre-1992 Direct Loan Obligations - | DSAA Direct Loans |
| (2) Pre-1992 Direct Loan Obligations - | DSAA Rescheduled Loans (Direct Portion) |
| (3) Pre-1992 Direct Loan Obligations - | DSAA Rescheduled Loans (Guaranty Portion) |
| (4) Pre-1992 Direct Loan Obligations - | FFB Loans |
| (5) Pre-1992 Direct Loan Obligations - | Subrogated Defaulted FFB Loans |
| (6) Pre-1992 Direct Loan Obligations - | Subrogated Defaulted Refinanced Loans |
| (7) Pre-1992 Loan Guarantees - | Refinanced Loans |
| (8) Pre-1992 Loan Guarantees - | Commercial Bank Loans |

B. Direct Loans Obligated Prior to FY 1992.

Dollars in Thousands (\$ X 000)

LOAN PROGRAMS	LOAN RECEIVABLE, GROSS	ALLOWANCE FOR ESTIMATED UNCOLLECTIBLE LOANS	LOAN RECEIVABLE, NET
(1) See Para A (1)	\$4,123,549	\$ 0	\$4,123,549
(2) See Para A (2)	215,594	0	215,594
(3) See Para A (3)	497,522	0	497,522
(4) See Para A (4)	4,344,273	0	4,344,273
(5) See Para A (5)	38,800	0	38,800
(6) See Para A (6)	0	0	0
TOTAL	\$9,219,738	\$ 0	\$9,219,738

C. Direct Loans Obligated after FY 1991. NONE

D. Defaults on Pre-1992 Loan Guarantees. NONE

NOTE. FFB loans are considered Direct Loans; however, \$38,800 thousand of loan principal was defaulted to FFB by various countries and DSAA paid FFB the defaulted principal.

E. Defaults on Post-1991 Loan Guarantees. NONE

F. Liability for Loan Guarantees. NONE

NOTE. DSAA expects to collect 100% of its defaulted guaranty loans.

FY 1992 Annual Financial Statements Foreign Military Sales Trust Fund

FY 1992 ANNUAL FINANCIAL STATEMENT DEFENSE SECURITY ASSISTANCE AGENCY

G. Subsidy Expense for Post-1991 Loans and Loan Guarantees.

(1) Current Year's Direct Loans.

Dollars in Thousands (\$ X 000)

	<u>Loan Programs</u>	<u>Interest Differ ential</u>	<u>Defaults</u>	<u>Fees</u>	<u>Other</u>	<u>Total</u>
(a)	FY 1992 - FMFDLFA	\$25,985	\$24,117			\$50,102

(2) Prior Year's Direct Loans. NONE

(3) Total Direct Loan Subsidy Expenses.

Dollars in Thousands (\$ X 000)

	<u>Loan Programs</u>	<u>Total</u>
(a)	FY 1992 - FMFDLFA	\$50,102

(4) Current Year's Loan Guarantees. NONE

(5) Prior Year's Loan Guarantees. NONE

(6) Total Loan Guarantees Subsidy Expense. NONE

H. Administrative Expense. NONE

I. Other Information.

(1) Other Disclosures. Of the \$9.2 billion of Loans Receivable reported in Note 6.B., a portion is currently in default and is primarily attributable to a few foreign borrowers that, for the foreseeable future, lack the ability to repay. These borrowers account for 98 percent of principal and interest defaults in excess of three years and 99 percent of defaults in excess of one year. The debts related to these foreign governments have and will continue to accrue interest (Accounts Receivable) until such time as they are repaid, officially rescheduled, or legislation is enacted to forgive the debt. A table of pertinent information related to the status of Loans and Accounts Receivable follows.

FY 1992 Annual Financial Statements Foreign Military Sales Trust Fund

FY 1992 ANNUAL FINANCIAL STATEMENT DEFENSE SECURITY ASSISTANCE AGENCY

Dollars in Thousands (\$ X 000)

Description	Loans Receivable (Principal)	Accounts Receivable (Interest)
Total Loans / Accounts		
Receivable	\$9,219,738.5	\$369,265.9
Problem Borrowers	435,323.4	255,086.3
Other Borrowers	8,784,415.1	114,179.6
Total Payments in Default	\$112,583.3	\$253,616.5
Problem Borrowers	108,184.7	246,359.1
Other Borrowers	4,398.6	7,257.4
Defaults - Three Years or More	\$12,120.4	\$89,041.6
Problem Borrowers	12,120.4	87,488.8
Other Borrowers	0.0	1,552.8

(2) Accounting Changes. During FY 1992, new accounting procedures prescribed by the Credit Reform Act of 1990 were implemented. These changes included the transfer of \$1,900 million of obligated and unobligated balances and \$8,897 million of loans and accounts receivable from the Foreign Military Financing Grant Account (11*1082) to the Foreign Military Loan Liquidating Account (11X4121). In addition, two new accounts, the Foreign Military Financing Program Account (11*1085) and the Foreign Military Financing Direct Loan Financing Account (11X4122) were established.

(3) Guaranteed Loans. Following is the status of DSAA Guaranteed Loans.

Dollars in Thousands (\$ X 000)

Description	Amount
* Face Value of Guaranteed Refinanced Loans	\$8,173,192
* DSAA Guaranteed Portion of Refinanced Loans (90% of Face Value)	7,355,873
* Portion of Refinanced Loans Secured by Country Deposits in the Financing Bank (10% Face Value)	817,319
** Face Value of Guaranteed Commercial Bank Loans	40,000
** DSAA Guaranteed Portion of Commercial Bank Loans (100% Face Value)	40,000

(4) Undisbursed Direct Loans. The undisbursed balance available for new Direct Loans Receivable is \$1,324,359,027.

*** Note 7. Property Held For Sale. NONE

FY 1992 Annual Financial Statements Foreign Military Sales Trust Fund

FY 1992 ANNUAL FINANCIAL STATEMENT DEFENSE SECURITY ASSISTANCE AGENCY

- *** Note 8. Other Financial Resources -- Non-Federal. NONE
- *** Note 9. Property, Plant, and Equipment, Net. NONE
- *** Note 10. Other Non-Financial Resources. NONE
- *** Note 11. Leases. NONE
- *** Note 12. Debt.

Dollars in Thousands (\$ X 000)

Description	Beginning Balance	New Borr- owing	Repay- ments	Ending Balance	Refin- ance
A. Gross Fed Debt: NONE	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
B Inter-governmental Debt:	0	0	0	0	0
(1) Borrowing from the Treasury	0	0	0	0	0
(2) Borrowing from Federal Financing Bank	\$4,599,970	0	\$255,697	\$4,344,273	0
(3) Borrowing from Other Federal Agencies	0	0	0	0	0
Total Inter-governmental Debt	<u>\$4,599,970</u>		<u>\$255,697</u>	<u>\$4,344,273</u>	<u>0</u>
C. Total Debt	\$4,599,970	\$0	\$255,697	\$4,344,273	\$0

- *** Note 13. Other Funded Liabilities.

Dollars in Thousands (\$ X 000)

A. Other Funded Liabilities	Non-Federal	Federal	Total
(1) FMS Trust Fund	\$21,608,001	\$ 0	\$21,608,001
(2) SDAF	7,360	0	7,360
(3) FMLLA	0	68,937	68,937
(4) FMFDLFA -- Estimated liability from borrowings to be made	0	294,898	294,898
(5) FMFDLFA -- Liability for subsidy related to undisbursed loans	0	50,102	50,102
Total	<u>\$21,615,361</u>	<u>\$413,937</u>	<u>\$22,029,298</u>

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FY 1992 Annual Financial Statements Foreign Military Sales Trust Fund

FY 1992 ANNUAL FINANCIAL STATEMENT DEFENSE SECURITY ASSISTANCE AGENCY

B. Other Information.

(1) The FMS Trust Fund value represents the net amount billed to and unpaid by the foreign customer. This practice is based upon the Arms Export Control Act of 1976 requirement to bill in advance of performance of services and issuance of goods. Amount is value expected to be expended by U.S. government on behalf of foreign customer.

(2) The SDAF value represents excess collections from customers over disbursements.

(3) The FMFDLFA value represents future repayments of borrowings from Treasury for credit reform loans.

*** Note 14. Pensions and Other Actuarial Liabilities. NONE

*** Note 15. Other Unfunded Liabilities. NONE

*** Note 16. Fund Balances.

Dollars in Thousands (\$ X 000)

Description	Revolving Funds	Trust Funds	Appropriated Funds	Total
A. Unexpended Appropriations	\$1,324,359	\$ 0	\$ 0	\$1,324,359
B. Invested Capital	6,252,794	0	46	6,252,840
C. Cumulative Results of Operations	0	0	0	0
D. Donations	0	0	0	0
E. Transfers	0	0	0	0
F. Total	\$7,577,153	\$ 0	\$ 46	\$7,577,199

G. Other Information.

(1) \$1,070,000 thousand of B. is attributable to SDAF. Any excess generated from the operation of the fund is returned to the Treasury miscellaneous receipts account. In FY 1992, \$1,864 thousand was returned to Treasury.

(2) FMLLA is not considered a revolving fund. It is a liquidating fund. It is being classified as a revolving fund since the Treasury is classifying it as a revolving fund for the SF 220 reports. All of A. and \$5,182,794 thousand of B. are attributable to FMLLA.

FY 1992 Annual Financial Statements Foreign Military Sales Trust Fund

**FY 1992 ANNUAL FINANCIAL STATEMENT
DEFENSE SECURITY ASSISTANCE AGENCY**

*** Note 17. Future Funding Requirements. NONE

*** Note 18. Taxes. NONE

*** Note 19. Other Revenue and Financing Sources. NONE

*** Note 20. Program and Operating Expenses.

All expenses (\$50,102 thousand) are other subsidy expenses incurred by the FMFDLFA.

*** Note 21. Other Expenses. NONE

*** Note 22. Extraordinary Items and Prior Period Adjustments. NONE

*** Note 23. Transfers (and Donations). NONE

*** Note 24. Intrafund Eliminations. NONE

*** Note 25. Other Disclosures. NONE

FY 1992 Annual Financial Statements Foreign Military Sales Trust Fund

"DSAA PERFORMANCE INDICATORS - PART V"

ACCOUNT 8242

Title: New Sales Cases Accepted and Amendments Processed

FY 1992 ACTIVITY:	<u>ARMY</u>	<u>NAVY</u>	<u>USAF</u>	<u>OTHER</u>	<u>TOTAL</u>
NEW FY 1992 SALES CASES	906	658	605	271	2,440
CASE AMENDMENTS-ALL YEARS	174	135	97	8	414
TOTAL	1,080	793	702	279	2,854

FY 1991 ACTIVITY:	<u>ARMY</u>	<u>NAVY</u>	<u>USAF</u>	<u>OTHER</u>	<u>TOTAL</u>
NEW FY 1991 SALES CASES	1,156	695	667	310	2,828
CASE AMENDMENTS-ALL YEARS	223	121	112	9	465
TOTAL	1,379	816	779	319	3,293

Narrative:

This performance indicator shows the number of new sales cases implemented and the number of case amendments processed to existing cases during each fiscal year. While amendments are identified to the original case, they are not identified to the fiscal year of the original case/sale. Several amendments during the multiple-year life of any case is considered reasonable. The statistical decline during FY 1992 is normal following the increase caused by the Desert Shield/Desert Storm military operation of FY 1991.

FY 1992 Annual Financial Statements Foreign Military Sales Trust Fund

"DSAA PERFORMANCE INDICATORS - PART V"

ACCOUNT 8242

Title: Ordered Value of New Sales Cases Accepted and Amendments Processed

DOLLARS IN THOUSANDS (\$ X 000)

FY 1992 ACTIVITY:	<u>ARMY</u>	<u>NAVY</u>	<u>USAF</u>	<u>OTHER</u>	<u>TOTAL</u>
NEW CASES AND AMENDMENTS	3,303,244	4,988,398	6,664,151	215,954	15,171,747

FY 1991 ACTIVITY:	<u>ARMY</u>	<u>NAVY</u>	<u>USAF</u>	<u>OTHER</u>	<u>TOTAL</u>
NEW CASES AND AMENDMENTS	11,392,373	3,996,086	8,131,988	267,138	23,787,585

Narrative:

This performance indicator describes the dollar value for new Sales Cases and Amendments to existing Sales Cases. This dollar value, taken with the level of activity in the indicator, "New Sales Cases Accepted and Amendments Processed," provides an appreciation of the relative amounts of activity among the Implementing Agencies.

FY 1992 Annual Financial Statements Foreign Military Sales Trust Fund

"DSAA PERFORMANCE INDICATORS - PART V"

ACCOUNT 8242

Title: Ordered Value of New & Amended Sales Cases by Major Category

DOLLARS IN THOUSANDS (\$ X 000)

FY 1992 ACTIVITY:	ARMY	NAVY	USAF	OTHER	TOTAL
Aircraft	732,837	2,914,386	4,334,059	318	7,981,600
Missiles	509,257	339,723	292,064	120,732	1,261,776
Ships	0	178,628	0	104	178,732
Vehicles & Weapons	391,774	94,383	179,629	8,432	674,218
Ammunition	60,134	104,309	70,508	13,995	248,946
Training	151,929	141,588	410,188	112	703,817
Miscellaneous/Other	1,457,313	1,215,381	1,377,703	72,261	4,122,658
TOTAL	3,303,244	4,988,398	6,664,151	215,954	15,171,747

FY 1991 ACTIVITY:	ARMY	NAVY	USAF	OTHER	TOTAL
Aircraft	510,015	555,799	3,530,599	199	4,596,612
Missiles	1,070,180	490,928	85,111	21,214	1,667,433
Ships	42,650	239,898	0	0	282,548
Vehicles & Weapons	4,408,670	341,034	6,487	149	4,756,340
Ammunition	544,847	61,058	152,953	17,864	776,722
Training	178,331	458,891	283,506	181	920,909
Miscellaneous/Other	4,637,680	1,848,478	4,073,332	227,531	10,787,021
TOTAL	11,392,373	3,996,086	8,131,988	267,138	23,787,585

Narrative:

This indicator classifies the various kinds of execution activities and shows the distribution of major weapon sales cases among the Implementing Agencies.

FY 1992 Annual Financial Statements Foreign Military Sales Trust Fund

"DSAA PERFORMANCE INDICATORS - PART V"

ACCOUNT 8242

Title: Sales Cases Closed

FY 1992 ACTIVITY:	<u>ARMY</u>	<u>NAVY</u>	<u>USAF</u>	<u>OTHER</u>	<u>TOTAL</u>
CASES CLOSED FOR ALL YEARS	1,140	576	660	360	2,736

FY 1991 ACTIVITY:	<u>ARMY</u>	<u>NAVY</u>	<u>USAF</u>	<u>OTHER</u>	<u>TOTAL</u>
CASES CLOSED FOR ALL YEARS	1,099	507	679	358	2,643

Narrative:

This indicator demonstrates the number of Sales Cases "Closed" during the fiscal year. The "closure" of a sales case, like the completion of a legal contract, occurs when all the terms have been met. Sales Cases must be legally, logistically, and financially "complete" prior to closure

FY 1992 Annual Financial Statements Foreign Military Sales Trust Fund

"DSAA PERFORMANCE INDICATORS - PART V"

ACCOUNT 8242

Title: Ordered Value of Sales Cases Closed

DOLLARS IN THOUSANDS (\$ X 000)

FY 1992 ACTIVITY:	<u>ARMY</u>	<u>NAVY</u>	<u>USAF</u>	<u>OTHER</u>	<u>TOTAL</u>
CLOSED CASES FOR ALL YEARS	835,782	400,249	1,269,442	156,798	2,662,271

FY 1991 ACTIVITY:	<u>ARMY</u>	<u>NAVY</u>	<u>USAF</u>	<u>OTHER</u>	<u>TOTAL</u>
CLOSED CASES FOR ALL YEARS	1,823,310	285,821	1,636,792	85,766	3,831,688

Narrative:

This indicator shows the dollar value of all sales cases closed during each fiscal year. These dollar values, taken with the level of activity in the previous indicator "Sales Cases Closed," demonstrate one of several complexities in comparing numbers of cases with their dollar values and by Implementing Agency.

FY 1992 Annual Financial Statements Foreign Military Sales Trust Fund

"DSAA PERFORMANCE INDICATORS - PART V"

ACCOUNT 8242

Title: Aged Number of Sales Cases Closed

FY 1992 ACTIVITY:	<u>ARMY</u>	<u>NAVY</u>	<u>USAF</u>	<u>OTHER</u>	<u>TOTAL</u>
AGE: 0-5 Years	575	208	304	206	1,293
AGE: 6-10 Years	494	291	246	126	1,157
AGE: 11-15 Years	62	69	90	27	248
AGE: 16-20 Years	9	8	19	1	37
AGE: 20+ Years	0	0	1	0	1
TOTAL	1,140	576	660	360	2,736

FY 1991 ACTIVITY:	<u>ARMY</u>	<u>NAVY</u>	<u>USAF</u>	<u>OTHER</u>	<u>TOTAL</u>
AGE: 0-5 Years	550	196	305	220	1,271
AGE: 6-10 Years	445	236	278	127	1,086
AGE: 11-15 Years	86	69	81	11	247
AGE: 16-20 Years	18	6	13	0	37
AGE: 20+ Years	0	0	2	0	2
TOTAL	1,099	507	679	358	2,643

Narrative:

This performance indicator reveals the age or "life cycle" of the sales cases closed. The average 6+ year life of a case is directly attributable to its complexity. Major Weapon Systems Procurements, such as aircraft and construction cases, require more time to execute and complete financial closeout than does logistics and training cases.

FY 1992 Annual Financial Statements Foreign Military Sales Trust Fund

"DSAA PERFORMANCE INDICATORS - PART V"

ACCOUNT 8242

Title: Aged Value of Sales Cases Closed

DOLLARS IN THOUSANDS (\$ X 000)

FY 1992 ACTIVITY:	ARMY	NAVY	USAF	OTHER	TOTAL
AGE: 0-5 Years	141,347	45,730	58,824	44,552	290,453
AGE: 6-10 Years	341,216	147,936	126,252	103,661	719,065
AGE: 11-15 Years	283,614	171,297	281,616	8,538	745,065
AGE: 16-20 Years	69,605	35,286	657,309	47	762,247
AGE: 20+ Years	0	0	145,441	0	145,441
TOTAL	835,782	400,249	1,269,442	156,798	2,662,271

FY 1991 ACTIVITY:	ARMY	NAVY	USAF	OTHER	TOTAL
AGE: 0-5 Years	109,632	40,439	69,499	50,299	269,869
AGE: 6-10 Years	511,166	70,542	252,545	31,527	865,780
AGE: 11-15 Years	474,583	76,394	477,785	3,941	1,032,703
AGE: 16-20 Years	727,929	98,445	551,261	0	1,377,635
AGE: 20+ Years	0	0	285,702	0	285,702
TOTAL	1,823,310	285,821	1,636,792	85,766	3,831,688

Narrative:

This performance indicator shows the age and value of cases closed by Implementing Agency. The higher valued procurement and construction cases require more time to close, have a greater procurement and construction lead time requirement, and have a higher price due to the required complexities and the amount of labor involved.

FY 1992 Annual Financial Statements Foreign Military Sales Trust Fund

"DSAA PERFORMANCE INDICATORS - PART V"

ACCOUNT 8242

Title: Value of Defense Articles and Services Delivered

DOLLARS IN MILLIONS (\$ X 000,000)

FY 1992 ACTIVITY:	<u>ARMY</u>	<u>NAVY</u>	<u>USAF</u>	<u>OTHER</u>	<u>TOTAL</u>
DELIVERED VALUE	3,154.2	1,855.6	4,845.1	161.4	10,016.4

FY 1991 ACTIVITY:	<u>ARMY</u>	<u>NAVY</u>	<u>USAF</u>	<u>OTHER</u>	<u>TOTAL</u>
DELIVERED VALUE	2,834.0	1,462.0	4,864.0	99.0	9,259.0

Narrative:

This performance indicator shows the value of articles and services provided to customer countries during the year. These transactions are generated by the DoD Form 250. "Delivered Value" includes case activities for all years and all cases.

FY 1992 Annual Financial Statements Foreign Military Sales Trust Fund

"DSAA PERFORMANCE INDICATORS - PART V"

ACCOUNT 8242

Title: Ratio of Deliveries to Ending Undelivered Balance

DOLLARS IN MILLIONS (\$ X 000,000)

FY 1992 ACTIVITY:	ARMY	NAVY	USAF	OTHER	TOTAL
BEGINNING UNDELIVERED BAL.	24,565.0	23,739.0	27,242.0	933.0	76,479.0
NEW ORDERS - FY 1992	3,303.2	4,988.4	6,664.1	216.0	15,171.7
TOTAL UNDELIVERED ORDERS	27,868.2	28,727.4	33,906.1	1,149.0	91,650.7
LESS: ALL DELIVERIES IN FY 92	3,154.2	1,855.6	4,845.1	161.4	10,016.4
ENDING UNDELIVERED BALANCE	24,714.0	26,871.8	29,061.0	987.5	81,634.4
RATIOS BY IA AND TOTAL:	12.76%	6.91%	16.67%	16.35%	12.27%

FY 1991 ACTIVITY:	ARMY	NAVY	USAF	OTHER	TOTAL
BEGINNING UNDELIVERED BAL.	16,007.0	21,205.0	23,974.0	765.0	61,951.0
NEW ORDERS - FY 1991	11,392.0	3,996.0	8,132.0	267.0	23,787.0
TOTAL UNDELIVERED ORDERS	27,399.0	25,201.0	32,106.0	1,032.0	85,738.0
LESS: ALL DELIVERIES IN FY 91	2,834.0	1,462.0	4,864.0	99.0	9,259.0
ENDING UNDELIVERED BALANCE	24,565.0	23,739.0	27,242.0	933.0	76,479.0
RATIOS BY IA AND TOTAL:	11.54%	6.16%	17.85%	10.81%	12.11%

Narrative: This ratio indicates that FY 92 deliveries (execution) were 12.3% of the ending balance of undelivered orders. Additional comparisons reveal FY 92 deliveries were 13.1% of the beginning balance, 66.0% of the new orders placed, and 10.9% of the total undelivered orders for the year. The obvious increase in FY 1992 undelivered orders is directly attributable to the increased FY 1991 and FY 1992 sales related to the Desert Shield/Desert Storm Military Operation.

FY 1992 Annual Financial Statements Foreign Military Sales Trust Fund

"DSAA PERFORMANCE INDICATORS - PART V"

ACCOUNT 8242

Title: Value of New Obligations

DOLLARS IN MILLIONS (\$ X 000,000)

FY 1992 ACTIVITY:	<u>ARMY</u>	<u>NAVY</u>	<u>USAF</u>	<u>OTHER</u>	<u>TOTAL</u>
VALUE	3,607.7	5,378.3	4,914.9	426.8	14,327.7

DOLLARS IN MILLIONS (\$ X 000,000)

FY 1991 ACTIVITY:	<u>ARMY</u>	<u>NAVY</u>	<u>USAF</u>	<u>OTHER</u>	<u>TOTAL</u>
VALUE	5,815.6	2,842.1	5,284.0	482.8	14,424.5

Narrative:

This performance indicator demonstrates the value of contracts awarded and/or orders placed during each of the fiscal years. These values represent new orders of goods and services which the production and delivery may require considerable logistical and financial planning and several years to fully execute.

FY 1992 Annual Financial Statements Foreign Military Sales Trust Fund

"DSAA PERFORMANCE INDICATORS - PART V"

ACCOUNT 8242

Title: Value of Obligations Liquidated - All Years

DOLLARS IN MILLIONS (\$ X 000,000)

	<u>ARMY</u>	<u>NAVY</u>	<u>USAF</u>	<u>OTHER</u>	<u>TOTAL</u>
FY 1992 ACTIVITY:					
VALUE	4,149.7	3,431.5	4,727.5	131.1	12,439.8

	<u>ARMY</u>	<u>NAVY</u>	<u>USAF</u>	<u>OTHER</u>	<u>TOTAL</u>
FY 1991 ACTIVITY:					
VALUE	3,081.3	2,754.3	5,593.5	42.4	11,471.6

Narrative:

Values represent all disbursements paid to contractors for work performed and reimbursements paid to the the Military Departments for Articles and Services provided.

FY 1992 Annual Financial Statements Foreign Military Sales Trust Fund

"DSAA PERFORMANCE INDICATORS - PART V"

ACCOUNT 8242

Title: Ratio of Unliquidated Obligations to Open Case Values as of Fiscal Year-End

DOLLARS IN MILLIONS (\$ X 000,000)

September 30, 1992:	<u>ARMY</u>	<u>NAVY</u>	<u>USAF</u>	<u>OTHER</u>	<u>SAAC</u>	<u>TOTAL</u>
VALUE OF OPEN CASES	\$58,819.0	\$52,817.8	\$82,882.5	\$1,740.0		\$196,259.3
UNLIQUIDATED OBLIGATIONS					\$22,858.5	\$22,858.5
RATIO OF UNLIQUIDATED OBLIGATIONS TO OPEN CASES						11.6%

September 30, 1991:	<u>ARMY</u>	<u>NAVY</u>	<u>USAF</u>	<u>OTHER</u>	<u>SAAC</u>	<u>TOTAL</u>
VALUE OF OPEN CASES	\$56,351.5	\$48,229.7	\$77,487.8	\$1,680.9		\$183,749.9
UNLIQUIDATED OBLIGATIONS					\$21,051.2	\$21,051.2
RATIO OF UNLIQUIDATED OBLIGATIONS TO OPEN CASES						11.5%

Narrative:

This compares the value of unliquidated obligations to the value of the open cases at fiscal year-end. No adjustment has been made for previous execution or prior obligations liquidated. The September 30, 1991 position was restated to reconcile and correct current FY 1992 activity as of September 30, 1992. Note: SAAC case values are included in "OTHER."

FY 1992 Annual Financial Statements Foreign Military Sales Trust Fund

"DSAA PERFORMANCE INDICATORS - PART V"

ACCOUNT 8242

Title: Trust Fund and Interest Bearing Account Balances as of Fiscal Year-End

DOLLARS IN MILLIONS (\$ X 000,000)

BALANCES AS OF SEPTEMBER 30, 1992	<u>SAAC</u>
Treasury Cash Balance for Account 8242	\$6,516.9
Interest Bearing Accounts	6,669.8
Accounts Receivable	8,603.3
Accounts Payable	<u>-182.1</u>
TOTAL	\$21,608.0

BALANCES AS OF SEPTEMBER 30, 1991	<u>SAAC</u>
Treasury Cash Balance for Account 8242	\$6,776.7
Interest Bearing Accounts	5,187.0
Accounts Receivable	8,013.3
Accounts Payable	<u>-181.7</u>
TOTAL	\$19,795.3

Narrative:

Foreign Military Sales (FMS) Trust Fund Accounting is managed by the Security Assistance Accounting Center (SAAC) to ensure sufficient customer funds on hand to meet the daily cash requirements of the military departments.

During FY 1992, approximately \$12,439.8 Million was disbursed to implement customers' orders. This requirement, compared to the cash and interest bearing account balances, yields a "quick cash ratio" of 1.06 : 1 for the fund (cash to requirements). The liquidity ratio was 1.73 : 1 and was calculated as total cash available, plus receivables, minus payables, compared to FY 1992 cash disbursement requirements.

FY 1992 Annual Financial Statements Foreign Military Sales Trust Fund

"DSAA PERFORMANCE INDICATORS - PART V"

ACCOUNT 8242

Title: Cumulative Value of Unreconciled Accounts as of Fiscal Year End

September 30, 1992 Values:
UNRECONCILED ACCOUNTS

SAAC
-0-

September 30, 1991 Values:
UNRECONCILED ACCOUNTS

SAAC
-0-

Narrative:

As of September 30, 1992, there were no unreconciled accounts for any country.

FY 1992 Annual Financial Statements Foreign Military Sales Trust Fund

DSAA PERFORMANCE INDICATORS - PART V

ACCOUNT 8242

Title: Number of Open Cases as of Fiscal Year End

SEPTEMBER 30, 1992 POSITION:	<u>ARMY</u>	<u>NAVY</u>	<u>USAF</u>	<u>OTHER</u>	<u>TOTAL</u>
NUMBER OF CASES OPEN	8,245	6,344	5,684	1,366	21,639

SEPTEMBER 30, 1991 POSITION:	<u>ARMY</u>	<u>NAVY</u>	<u>USAF</u>	<u>OTHER</u>	<u>TOTAL</u>
NUMBER OF CASES OPEN	8,479	6,262	5,739	1,455	21,935

Narrative:

This performance indicator shows the number of active FMS Sales Cases at the end of each fiscal year. The September 30, 1991 position was restated to reconcile and correct current FY 1992 activity as of September 30, 1992.

FY 1992 Annual Financial Statements Foreign Military Sales Trust Fund

"DSAA PERFORMANCE INDICATORS - PART V"

ACCOUNT 8242

Title: Value of Country Accounts in Arrearage Status as of Fiscal Year End

(WHOLE DOLLARS)

COUNTRY AND VALUE, SEPTEMBER 30, 1992:	<u>ARREARAGE</u>
Nicaragua	\$25,844
Uganda	17,421
Uruguay	369,694
Organization of American States (OAS)	<u>537,308</u>
TOTAL	\$950,267

COUNTRY AND VALUE, SEPTEMBER 30, 1991:	<u>ARREARAGE</u>
Malta	\$35,364
Nicaragua	11,131
Nigeria	159,134
Organization of American States (OAS)	<u>314,026</u>
TOTAL	\$519,655

Narrative:

Four country accounts were placed in an arrearage status due to non-payment, as of fiscal year end.

FY 1992 Annual Financial Statements Foreign Military Sales Trust Fund

"DSAA PERFORMANCE INDICATORS - PART V"

ACCOUNT 8242

Title: Net Outlays to Plan, End of Fiscal Year

DOLLARS IN MILLIONS (\$ X 000,000)

	Presidents Budget	FY 1992 Actual	Ratio
FY 1992 ACTIVITY:			
DISBURSEMENTS	\$11,307.0	\$12,439.8	110.0%
COLLECTIONS	<u>-11,419.0</u>	<u>-12,182.0</u>	106.7%
NET OUTLAYS	-\$112.0	\$257.8	-230.2%
	Presidents Budget	FY 1991 Actual	Ratio
FY 1991 ACTIVITY:			
DISBURSEMENTS	\$10,055.0	\$11,471.6	114.1%
COLLECTIONS	<u>-10,300.0</u>	<u>-11,697.4</u>	113.6%
NET OUTLAYS	-\$245.0	-\$225.9	92.2%

Narrative:

Disbursement outlay estimates are based on prior unliquidated balances as carried forward from previous years, plus an estimate for the new year's obligations, and are adjusted by a historical experience (spend out rate) factor. Disbursements were higher than estimated due to two reasons: (1) New obligations were greater than estimated by \$2.8 billion due to unanticipated sales, accelerated procurements, and diversions from inventories; and (2) the spendout rate was higher than estimated.

Collections were also greater than anticipated due to an increase in the number and amount of FMS sales cases and their required initial cash deposits.

FY 1992 Annual Financial Statements Foreign Military Sales Trust Fund

"DSAA PERFORMANCE INDICATORS - PART V"

ACCOUNT 8242

Title: Work Years (WY) Used for Administration of Security Assistance Program During the Fiscal Year

FY 1992 ACTIVITY:	<u>ARMY</u>	<u>NAVY</u>	<u>USAF</u>	<u>DFAS-DE</u>	<u>DSAA & OTHER</u>	<u>TOTAL</u>
CONUS MILITARY WY	40	51	92	2	40	225
CONUS CIVILIAN WY	1,703	1,066	1,415	297	169	4,650
TOTAL CONUS WY	1,743	1,117	1,507	299	209	4,875

	<u>MILITARY</u>	<u>CIVILIAN</u>	<u>LOCALS</u>	<u>TOTAL</u>
CONUS WY	225	4,650	0	4,875
OVERSEAS WY	252	219	146	617
TOTAL WY	477	4,869	146	5,492

FY 1991 ACTIVITY:	<u>ARMY</u>	<u>NAVY</u>	<u>USAF</u>	<u>SAAC</u>	<u>DSAA & OTHER</u>	<u>TOTAL</u>
CONUS MILITARY WY	31	59	101	2	38	231
CONUS CIVILIAN WY	1,680	1,127	1,781	354	171	5,113
TOTAL CONUS WY	1,711	1,186	1,882	356	209	5,344

	<u>MILITARY</u>	<u>CIVILIAN</u>	<u>LOCALS</u>	<u>TOTAL</u>
CONUS WY	231	5,113	0	5,344
OVERSEAS WY	260	222	160	642
TOTAL WY	491	5,335	160	5,986

Narrative:

Work years are an estimate obtained from budget data. No specific manpower accounting system exists for Security Assistance workyears.

CONUS:

The civilian and military work years are assigned to provide logistical, financial, training, and other types of administrative support to the Foreign Military Sales Program. Civilian pay is funded from FMS administrative funds. Military pay is financed from the Military Pay Appropriations.

OVERSEAS:

There are FMS administrative work years at overseas Security Assistance Offices (SAO's) that are in support of FMS activities. U.S. Military and Civilians are stationed in Foreign Countries to provide administrative support for Security Assistance Program implementation. Local nationals are also hired to provide administrative support.

FY 1992 Annual Financial Statements Foreign Military Sales Trust Fund

"DSAA PERFORMANCE INDICATORS - PART V"

ACCOUNT 8242

Title: Cost of Work Years Used for Administration of the Security Assistance Program

DOLLARS IN THOUSANDS (\$ X 000)

					DSAA &	
FY 1992 ACTIVITY:	<u>ARMY</u>	<u>NAVY</u>	<u>USAF</u>	<u>DFAS</u>	<u>OTHER</u>	<u>TOTAL</u>
ACTUAL COST	\$90.1	\$60.9	\$76.0	\$22.6	\$36.2	\$285.8
BUDGET	\$90.0	\$67.5	\$83.1	\$19.1	\$19.3	\$279.0

					DSAA &	
FY 1991 ACTIVITY:	<u>ARMY</u>	<u>NAVY</u>	<u>USAF</u>	<u>SAAC</u>	<u>OTHER</u>	<u>TOTAL</u>
ACTUAL COST	\$87.2	\$61.1	\$91.3	\$15.2	\$17.4	\$272.2
BUDGET						

FY 1991 ACTIVITY IS NOT AVAILABLE

Narrative:

Costs include direct payroll costs, benefits, moving costs, automatic data processing, other services, and etc

FY 1992 Annual Financial Statements Foreign Military Sales Trust Fund

"DSAA PERFORMANCE INDICATORS - PART V"

ACCOUNT 8242

Title: Reconciliation of the Number of Cases Open at Fiscal Year End

SEPTEMBER 30, 1992 POSITION:	ARMY	NAVY	USAF	DSAA & OTHER	MISC	TOTAL
BEGINNING BALANCE (OPEN)	8,479	6,262	5,739	1,455	0	21,935
ADD: NEW & MOD CASES	906	658	605	271	0	2,440
SUBTOTAL	9,385	6,920	6,344	1,726	0	24,375
LESS: CASES CLOSED	1,140	576	660	360	0	2,736
SUBTOTAL	8,245	6,344	5,684	1,366	0	21,639
+/- MODS & ADJUSTMENTS	0	0	0	0	0	0
ENDING BALANCE (OPEN)	8,245	6,344	5,684	1,366	0	21,639

SEPTEMBER 30, 1991 POSITION:	ARMY	NAVY	USAF	DSAA & OTHER	MISC	TOTAL
BEGINNING BALANCE (OPEN)*	8,422	6,074	5,751	1,503	0	21,750
ADD: NEW & MOD CASES	1,156	695	667	310	0	2,828
SUBTOTAL	9,578	6,769	6,418	1,813	0	24,578
LESS: CASES CLOSED	1,099	507	679	358	0	2,643
SUBTOTAL	8,479	6,262	5,739	1,455	0	21,935
+/- MODS & ADJUSTMENTS	0	0	0	0	0	0
ENDING BALANCE (OPEN)	8,479	6,262	5,739	1,455	0	21,935

Narrative:

This performance indicator reconciles the number of active FMS Sales Cases at the end of each fiscal year. The September 30, 1991 position was restated to reconcile and correct current FY 1992 activity as of September 30, 1992.

- Value is calculated from other known amounts

FY 1992 Annual Financial Statements Foreign Military Sales Trust Fund

"DSAA PERFORMANCE INDICATORS - PART V"

ACCOUNT 8242

Title: Reconciliation of the Value of Cases Open at Fiscal Year End

DOLLARS IN THOUSANDS (\$ X 000)

SEPTEMBER 30, 1992 POSITION:	ARMY	NAVY	USAF	OTHER	TOTAL
BEGINNING BALANCE (OPEN)	56,351,523	48,229,666	77,487,773	1,680,889	183,749,851
ADD: NEW CASES**	3,303,244	4,988,398	6,664,151	215,954	15,171,747
SUBTOTAL	59,654,767	53,218,064	84,151,924	1,896,843	198,921,598
LESS: CASES CLOSED	835,782	400,249	1,269,442	156,798	2,662,271
SUBTOTAL	58,818,985	52,817,815	82,882,482	1,740,045	196,259,327
+/- MODS & ADJUSTMENTS	0.0000	0.0000	0.0000	0.0000	0.000
ENDING BALANCE (OPEN)	58,818,985	52,817,815	82,882,482	1,740,045	196,259,327

SEPTEMBER 30, 1991 POSITION:	ARMY	NAVY	USAF	OTHER	TOTAL
BEGINNING BALANCE (OPEN)	46,782,460	44,519,401	70,992,577	1,499,517	163,793,954
ADD: NEW CASES**	11,392,373	3,996,086	8,131,988	267,138	23,787,585
SUBTOTAL	58,174,833	48,515,487	79,124,565	1,766,655	187,581,539
LESS: CASES CLOSED	1,823,310	285,821	1,636,792	85,766	3,831,688
SUBTOTAL	56,351,523	48,229,666	77,487,773	1,680,889	183,749,851
+/- MODS & ADJUSTMENTS	0	0	0	0	0
ENDING BALANCE (OPEN)	56,351,523	48,229,666	77,487,773	1,680,889	183,749,851

Narrative:

This performance indicator reconciles the value of active FMS Sales Cases at the end of each fiscal year. The September 30, 1991 position was restated to reconcile and correct current FY 1992 activity to the official September 30, 1992 ending position.

* The beginning balance (October 1, 1990) was calculated from the FY 1991 activity.

** The value for "New Cases" includes all New Cases for FY 1991 and FY 1992 and all Case Modifications for all fiscal years

FY 1992 Annual Financial Statements Foreign Military Sales Trust Fund

Department/Agency: Department of Defense
Reporting Entity: Defense Security Assistance Agency 11X8242
STATEMENT OF FINANCIAL POSITION
AS OF SEPTEMBER 30, 1992
(In Thousands)

ASSETS	1992
1. Financial Resources:	
a. Fund Balances with Treasury (Note 2)	\$ 6,516,948
b. Cash (Note 2)	6,669,847
c. Foreign Currency (Note 2)	
d. Other Monetary Assets (Note 3)	
e. Investments, Non-Federal (Note 4)	
f. Accounts Receivable, Net - Non-Federal	8,602,243
g. Inventories Held for Sale, Net (Note 5)	
h. Loans Receivable, Net - Non-Federal (Note 6)	
i. Advances and Prepayments, Non-Federal	
j. Property Held for Sale (Note 7)	
k. Other, Non-Federal (Note 8)	
l. Intragovernmental Items:	
(1) Accounts Receivable, Federal	1,051
(2) Loans Receivable, Federal	
(3) Investments, Federal (Note 4)	
(4) Other, Federal	
m. Total Financial Resources	21,790,089
2. Non-Financial Resources:	
a. Resources Transferable to Treasury	
b. Inventories Not Held for Sale (Note 5)	
c. Property, Plant and Equipment, Net (Note 9)	
d. Other (Note 10)	
e. Total Non-Financial Resources	0
3. Total Assets	\$ 21,790,089

The accompanying notes are an integral part of these statements.

FY 1992 Annual Financial Statements Foreign Military Sales Trust Fund

LIABILITIES	1992
4. Funded Liabilities:	
a. Accounts Payable, Non-Federal	\$ 126,514
b. Accrued Interest Payable	
c. Accrued Payroll and Benefits	
d. Accrued Entitlement Benefits	
e. Lease Liabilities (Note 11)	
f. Debt (Note 12)	
g. Guarantees Payable (Note 6)	
h. Other Funded Liabilities, Non-Federal (Note 13)	21,608,001
i. Intragovernmental Liabilities	
(1) Accounts Payable, Federal	55,574
(2) Debt (Note 12)	
(3) Deferred Revenue	
(4) Other Funded Liabilities, Federal (Note 13)	
j. Total Funded Liabilities	21,790,089
5. Unfunded Liabilities:	
a. Accrued Leave	
b. Lease Liabilities (Note 11)	
c. Pensions and Other Actuarial Liabilities (Note 14)	
d. Other Unfunded Liabilities (Note 15)	
e. Total Unfunded Liabilities	0
6. Total Liabilities	\$ 21,790,089
NET POSITION	
7. Fund Balances: (Note 16)	
a. Revolving Fund Balances	\$
b. Trust Fund Balances	
c. Appropriated Fund Balances	
d. Total Fund Balances	0
8. Less Future Funding Requirements (Note 17)	
9. Net Position (Note 16)	0
10. Total Liabilities and Net Position	\$ 21,790,089

The accompanying notes are an integral part of these statements.

FY 1992 Annual Financial Statements Foreign Military Sales Trust Fund

Department/Agency: Department of Defense
 Reporting Entity: Defense Security Assistance Agency 11X8242
STATEMENT OF OPERATIONS (AND CHANGES IN NET POSITION)
FOR THE PERIOD ENDED SEPTEMBER 30, 1992
 (In Thousands)

REVENUES AND FINANCING SOURCES (See notes 1E and 1R) 1992	
1. Appropriations Expensed	\$
2. Revenues from Sales of Goods and Services	
a. To the Public	
b. Intragovernmental	
3. Interest and Penalties, Non-Federal	
4. Interest, Federal	
5. Taxes (Note 18)	
6. Other Revenues and Financing Sources (Note 19)	
7. Less: Taxes and Receipts Returned to the Treasury	
8. Total Revenues and Financing Sources	0
EXPENSES	
9. Cost of Goods or Services Sold	
a. To the Public	
b. Intragovernmental	
10. Program or Operating Expenses (Note 20)	
11. Depreciation	
12. Bad Debts and Writeoffs	
13. Interest	
a. Federal Financing Bank/Treasury Borrowing	
b. Federal Securities	
c. Other	
14. Other Expenses (Note 21)	
15. Total Expenses	0
16. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses Before Adjustments	0
17. Plus (Minus) Adjustments:	
a. Extraordinary Items (Note 22)	
b. Prior Period Adjustments (Note 22)	
18. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	0
19. Plus: Unfunded Expenses	
20. Excess (Shortage) of Revenues and Financing Sources Over Funded Expenses	\$ 0
21. Net Position, Beginning Balance	\$ 0
22. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	0
23. Plus (Minus) Equity Transfers	
24. Net Position, Ending Balance	\$ 0

The accompanying notes are an integral part of these statements.

FY 1992 Annual Financial Statements Foreign Military Sales Trust Fund

Department/Agency: Department of Defense
Reporting Entity: Defense Security Assistance Agency 11X8242
STATEMENT OF CASH FLOWS (INDIRECT METHOD)
AS OF SEPTEMBER 30, 1992
(In Thousands)

	1992
Cash Flows from Operating Activities:	
1. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	\$ -----
Adjustments affecting Cash Flow:	
2. Appropriations Expensed	
3. Decrease (Increase) in Accounts Receivable	(590,026)
4. Decrease (Increase) in Loans Receivable	
5. Decrease (Increase) in Other Assets	
6. Increase (Decrease) in Accounts Payable	405
7. Increase (Decrease) in Debt	
8. Increase (Decrease) in Other Liabilities	1,814,281
9. Depreciation and Amortization	
10. Other Unfunded Expenses	
11. Other Adjustments	
12. Total Adjustments	1,224,660
13. Net Cash Provided (Used) by Operating Activities	1,224,660
Cash Flows from Non-Operating Activities:	
14. Proceeds from Sales of Investments	
15. Proceeds from Sales of Property, Plant, and Equipment	
16. Purchases of Investments	
17. Purchases of Property, Plant and Equipment	
18. Net Cash Provided (Used) by Non-Operating Activities	0

The accompanying notes are an integral part of these statements.

FY 1992 Annual Financial Statements Foreign Military Sales Trust Fund

	1992
CASH PROVIDED (USED) BY FINANCIAL ACTIVITIES	
19. Appropriations (Current Warrants)	\$
20. Add:	
a. Restorations	
b. Transfers of Cash From Others	
21. Deduct:	
a. Withdrawals	
b. Transfers of Cash To Others	
22. Net Appropriations	----- 0 -----
23. Borrowing from the Public	
24. Repayments on Loans	
25. Borrowing from the Treasury and the Federal Financing Bank	
26. Repayments on Loans from the Treasury and the Federal Financing Bank	
27. Other Borrowings and Repayments	-----
28. Net Cash Provided (Used) by Financing Activities	----- 0 -----
29. Net Cash Provided (Used) by Operating, Non-Operating and Financing Activities	1,224,660
30. Fund Balances with Treasury, Cash, and Foreign Currency, Beginning	----- 11,962,135 -----
31. Fund Balances with Treasury, Cash, and Foreign Currency, Ending	\$ 13,186,795 =====

The accompanying notes are an integral part of these statements.

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Part VI - Other Issuances Related to this Audit

Management Advisory Memorandum



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON VIRGINIA 22202 2884

AUG 06 1992

MEMORANDUM FOR DEPUTY COMPTROLLER OF THE DEPARTMENT
OF DEFENSE (MANAGEMENT SYSTEMS)
DIRECTOR, DEFENSE SECURITY ASSISTANCE AGENCY
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICE

SUBJECT: Management Advisory Memorandum Regarding
Preparation of the FY 1992 Financial Statements
for the Foreign Military Sales Trust Fund

In preparation for our Audit of the Foreign Military Sales (FMS) Trust Fund's Financial Statements for FY 1992, we have reviewed the FMS Trust Fund's financial statements for FY 1991, prepared according to the Chief Financial Officers (CFO) Act. Our review disclosed deficiencies and material misstatements that, if uncorrected, could cause us to issue an adverse opinion on the FY 1992 statements. Problems with the 1991 statements were as follows.

o The Statement of Financial Position did not include an equity account, and the Statement of Operations was prepared using budgetary accounts instead of revenue and expense accounts. As a result, any accrued equities or cumulative net operating losses were not disclosed, and revenues and expenses were not reported on an accrual basis as required by the DoD Accounting Manual and Title 2 of the General Accounting Office's "Policy and Procedures Manual for Guidance of Federal Agencies" (Title 2). Recent guidance from the Office of Accounting Policy of the Comptroller, DoD, prohibited the use of an equity account in the authorized chart of accounts for the FMS Trust Fund. We have discussed this issue with the Director of Accounting Policy, and we disagree with the Director. We believe the reporting entity for the FMS statements should be the FMS Program, while the Director believes that the reporting entity should be the Treasury account (a holding account for the FMS Program). We believe that the intent of the Chief Financial Officers Act will not be met unless the financial statements report on the FMS Program. We also believe that statements focusing on the Treasury account would not be useful to management or other interested parties. A discussion of this matter is presented in the Enclosure.

o The Statement of Financial Position omitted three categories of assets owned by the FMS Trust Fund. These were: equipment and software purchases, amounts invested by foreign customers in DoD inventories, and work-in-process inventories at contractor plants. In addition, depreciation and amortization

Management Advisory Memorandum

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expenses should have been included in the Statement of Operations.

o Accounts receivable were not aged as required by the DoD Accounting Manual, and the currency of the accounts may have been misstated. A footnote stated that there were no material arrearages. However, DFAS - Denver reported to DSAA that as of September 30, 1991, \$6.5 billion of billed amounts had not been collected by the due date. Under Title 2, these amounts were past due, and the condition should have been disclosed. While the statements were not required to be in accordance with Title 2, any departures from Title 2 and the effects of the departures must be disclosed in footnotes to the statements.

o The authorized chart of accounts did not include provisions for uncollectible accounts and bad debts. This departure from Title 2 should have been explained. In addition, uncollectible accounts that are carried on the books year after year will result in an overstatement of accounts receivable.

We have observed these problems in our preliminary work; other problems may exist. We recognize that you may not be able to correct all of these problems immediately. However, we suggest that before you prepare the FY 1992 financial statements, you take all possible actions to correct these deficiencies. Please inform us in writing within 15 days of the date of this memorandum of your planned actions. If you have any questions or need any additional information, please contact Mr. Brice Harbert of the Denver Field Office at (303) 676-7405 (DSN 926-7405).

SIGNED

Nancy L. Hendricks
Director
Financial Management Directorate

HENDRICKS/FUNK/41479/CMN

Distribution

Chron
Project
PD
AIG



The Need for Equity, Expense, and Revenue Accounts
in the Financial Statements of the FMS Trust Fund

The Arms Export Control Act requires that the Foreign Military Sales (FMS) program be operated at no cost to the U.S. Government. However, such a large program cannot be operated so that the equity is always at zero. The presence of an equity, which may be positive or negative, results from surcharges applied and assets acquired. If the use of an equity account is not permitted, the financial statements will not disclose the equity that exists. Since the purpose of financial statements is to present fairly the financial position, results of operations, and changes in financial position of the reporting entity, statements that do not disclose equity and accurately report revenues and expenses will not accomplish this purpose.

An equity account is also needed to make fund managers aware of any need to adjust surcharge rates so that the fund can operate at no cost to the Government. Revenue and expense accounts, which must be closed to equity accounts, give management the results of operations for the period. Revenue and expense accounts are also necessary in order to account for transactions on the accrual basis. The accrual basis of accounting is required by the DoD Accounting Manual and Title 2. In addition, the Statement of Operations, required by the CFO Act and the Office of Management and Budget, cannot be properly prepared without revenue and expense accounts.

The Office of Accounting Policy has determined that the reporting entity for the FMS Trust Fund is the Treasury account (a holding account for the FMS Program), and that the Treasury account is only a means of transferring funds. The Treasury account does not employ personnel or contract for goods and services. Consequently, the Treasury account does not have equity, revenues, or expenses. The DoD Components execute the FMS Program and employ personnel whose salaries are paid by the FMS Trust Fund. The DoD Components also contract for goods and services (paid for by the FMS Trust Fund) that are sold to FMS customers. Consequently, any assets, revenues, expenses, and equities apply to the DoD Components, and should be included in their financial statements rather than in the financial statements of the FMS Trust Fund.

The Office of Accounting Policy's view does not address the FMS program. This approach would limit the financial visibility of FMS operations. Management would not receive important information on revenue, expenses, and accrued equities; this information is needed to ensure that the program is operated at

no cost to the U.S. Government. In our opinion, the resulting financial statements would not be useful to management or interested outside parties.

The CFO Act requires departments and agencies to provide financial statements of their revolving funds, trust funds, and commercial-type activities. The Office of Accounting Policy's concept might satisfy the requirement for trust fund statements, but would not satisfy the requirement for statements of commercial-type activities. FMS is a significant commercial-type activity that uses a trust fund to administer the program. We believe that financial statements for the FMS Program are clearly required by the CFO Act. While separate statements could be prepared for the Treasury account and the FMS Program, this would require additional work, would serve no useful purpose, and could result in duplicate reporting of overlapping areas. Consequently, we believe the financial statements of the FMS Trust Fund should account for the FMS Program, not for the Treasury account.

Management Advisory Memorandum Comments



OFFICE OF THE COMPTROLLER OF THE DEPARTMENT OF DEFENSE

WASHINGTON, DC 20301-1100

AUG 31 1992

**MEMORANDUM FOR DIRECTOR, FINANCIAL MANAGEMENT DIRECTORATE, OFFICE
OF THE DOD INSPECTOR GENERAL**

**SUBJECT: Management Advisory Memorandum Regarding Preparation of
the FY 1992 Financial Statements for the Foreign
Military Sales Trust Fund**

A Management Advisory Memorandum, dated August 6, 1992, subject as above, addressed a few concerns regarding the preparation of audited financial statements for the Foreign Military Sales Trust Fund for FY 1992. The memorandum indicated that if these concerns were not satisfactorily resolved, the DODIG might be precluded from issuing an unqualified opinion on the FY 1992 financial statements.

This office fully concurs with some of the recommended actions addressed in the above referenced memorandum.

Accounts receivable balances should be aged. As you are aware, the DoD Accounting Manual currently requires the aging of accounts receivable. This office will reemphasize, to both the Defense Finance and Accounting Service and the Defense Security Assistance Agency, the need to comply with this requirement for financial statements of the Foreign Military Sales Trust Fund.

Additionally, uncollectible accounts should be written off in accordance with current Department of Defense guidance. This office will advise the Defense Finance and Accounting Service and the Defense Security Assistance Agency of need to provide for general ledger accounts to account for uncollectible accounts and bad debts. However, a determination that amounts are uncollectible, and therefore should be written off, is subject to confirmation and approval by the State Department.

This office does not concur with other recommended actions addressed in the above referenced memorandum.

One of the major issues addressed in the subject memorandum, is which organizational activity should be the reporting entity for the Foreign Military Sales Program. While the proposed financial statements encompass the Foreign Military Sales Trust Fund, it should be recognized that the Foreign Military Sales Program extends beyond the Foreign Military Sales Trust Fund and encompasses many activities, and transactions, in the Military Departments and Defense Agencies. In fact, on reimbursable Foreign Military Sales transactions, it is these other DoD Components, and not the Foreign Military Sales Trust Fund, that

Management Advisory Memorandum Comments

generate revenue and incur expenses associated with Foreign Military Sales cases.

Thus, the DODIG statement that "We believe the reporting entity for the FMS statements should be the FMS program, while the Director believes that the reporting entity should be the Treasury account . . ." addresses two different parameters. The Foreign Military Sales Trust Fund is, as its name implies, a Trust Fund requiring the Department to act in a fiduciary capacity on behalf of the Department's Foreign Military Sales customers. Conversely, the Military Departments are responsible for the performance of the Foreign Military Sales Program, including reporting on the status of specific Foreign Military Sales cases and operations.

Additionally, the DODIG statement that focusing on the Treasury account would not be useful to management or other parties implies that the Fund's Managers do not receive useful information from the current Foreign Military Sales structure. This is not the case. For example, useful management reports on the status of various cases are reported through the Defense Integrated Financial System and provided to the Defense Security Assistance Agency management. More importantly, the DODIG's statement tacitly recognizes that the Foreign Military Sales Program does extend beyond the Foreign Military Sales Trust Fund. Thus, an audit of the Foreign Military Sales Trust Fund cannot, and should not be expected to, encompass the entire Foreign Military Sales Program. To encompass the entire Foreign Military Sales Program, additional information contained in various DoD Component systems must also be reported and examined.

Further, the comment that the Statement of Financial Position omits three categories of assets owned by the Foreign Military Sales Trust Fund is incorrect. These assets--equipment and related software, amounts invested in inventories, and work-in-process at contractor's plants--are controlled by, and should be reported on the financial statements of, the Military Departments or Defense Agencies and not by the Foreign Military Sales Trust Fund.

Consistent with our discussion on August 24, 1992, the Department's FY 1992 financial statements for the Foreign Military Sales Trust Fund will continue to limit the scope of the reporting entity to the trust fund, rather than to the entire Foreign Military Sales Program. Additionally, the Foreign Military Sales Trust Fund financial statements will not include equity, revenue, or expense accounts.



Alvin Tucker
Acting Chief Financial Officer

cc: Director, DFAS
Comptroller, DSAA

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Part VII - Management Comments

Comptroller of the Department of Defense Comments



OFFICE OF THE COMPTROLLER OF THE DEPARTMENT OF DEFENSE

WASHINGTON, DC 20301-1100

JUN - 4 1993

MEMORANDUM FOR DIRECTOR, FINANCIAL MANAGEMENT DIRECTORATE, ODODIG


SUBJECT: Draft Reports on Internal Controls and Compliance
with Laws and Regulations for the Special Defense
Acquisition Fund for FY 1992 (Project No. 2FA-2013)
and the Foreign Military Sales Trust Fund's Financial
Statements for FY 1992 (Project No. 2FD-2005)

Two DoDIG memorandums, dated May 17, 1993, forwarded the subject draft reports to the DoD Chief Financial Officer; the Director, Defense Security Assistance Agency; and the Director, Defense Finance and Accounting Service.

Attached are the Department's comments on the subject draft reports.

- Attachment 1 contains comments on the draft report on the Special Defense Acquisition Fund (Project No. 2FA-2013).
- Attachment 2 contains comments on the draft report on the Foreign Military Sales Trust Fund (Project No. 2FD-2005).

Mr. Oscar Covell is the staff contact for this office. He may be reached at 697-6149.


Alvin Tucker
Acting Chief Financial Officer

Attachments

cc: DSAA
DFAS

CHIEF FINANCIAL OFFICER COMMENTS ON
DRAFT REPORTS ON INTERNAL CONTROLS AND COMPLIANCE WITH LAWS
AND REGULATIONS FOR THE FOREIGN MILITARY SALES TRUST FUND'S
FINANCIAL STATEMENTS FOR FY 1992
(PROJECT NO. 2PD-2005)

* * * * *

Lack of Overall Management of Foreign Military Sales (FMS).
Nonconcur with the DoDIG position that the FMS Trust Fund does not have a fund manager. The FMS Trust Fund does have a manager--it is the Director of the Defense Security Assistance Agency (DSAA). In accordance with paragraph E.3., of DoDD 5132.3, "DoD Policies and Responsibilities Relating to Security Assistance," the DSAA shall perform fund management functions in accordance with DoD 5105.38-M, Security Assistance Management Manual, that authorizes DSAA to publish and direct Security Assistance operations. In recognition of the DSAA's role as fund manager, the DSAA Comptroller has provided a management representation letter to the DoDIG in conjunction with the DSAA response to the draft report. Additionally, while DoDD 5132.3 designates DSAA as being responsible for overseeing security assistance programs and administering Foreign Military Sales Trust Fund, execution of DoD security assistance programs is decentralized within the Department and remains a responsibility of individual DoD Components.

There is no reason to treat the FMS Trust Fund any differently than other funds; or the FMS program differently from any other DoD program. For example, while there are functional proponents responsible for overall policy and oversight of various program areas such as depot maintenance, supply operations, and transportation, the functional proponent is not the day-to-day manager for such programs. Instead, each DoD Component provides the day-to-day management. Applicable financial transactions for such programs are included in the various customer accounts and the applicable performing fund or account. This is also true of the FMS program. There is no reason to view the role of the DoD functional proponent for the FMS program any differently than the role of the DoD functional proponent for depot maintenance, supply operations, and transportation, or a host of other areas. Conversely, there is a need to distinguish between the FMS Trust Fund and the FMS program. The DSAA is the manager of the FMS Trust Fund and the functional proponent for the FMS program, but does not, and should not, manage day-to-day DoD-wide efforts of the performing activities that provide the requested goods and services purchased by the FMS Trust Fund.

Inadequate Audit Trails for Disbursements. Nonconcur that an inadequate audit trail exists to verify payments. General ledger disbursement balances in the FMS Trust Fund can be traced to source documentation at a performing installation. For example, Defense Finance and Accounting Service (DFAS)-Columbus Center keeps records of payments. If any loss of payment records occurred, it should be an isolated occurrence.

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No Accounting for Revenues, Expenses, or Net Position. Nonconcur with the DoDIG position that revenues, expenses and a net position for the FMS program (which extends beyond the FMS Trust Fund) must be accounted for, and presented, in the financial statements of the FMS Trust Fund. The FMS Trust Fund is, as its name implies, a trust fund requiring the Department to act in a fiduciary capacity on behalf of the Department's FMS customers. As such, the FMS Trust Fund accounting system bills customer countries for efforts performed by private contractors and various DoD Components, accepts and records the receipt of foreign customer funds, reimburses private contractors and DoD Components for efforts performed in support of FMS cases, and reports on the status of efforts performed. While DoD Components perform work on a reimbursable basis for the FMS Trust Fund, and consequently, generate revenue and incur expenses associated with such work, the revenues and expenses resulting from such work are, and should be, transactions recorded by the DoD Components and not by the FMS Trust Fund. (As indicated above, the FMS Trust Fund should, and does, record the cash payment of such amounts to the performing activity.) Including, in the FMS Trust Fund, revenue and expenses that have been earned and incurred, respectively, by DoD Components supplying goods or services to the FMS Program, would appear to be as inappropriate as including revenue and expense amounts earned and incurred, respectively, by private contractors supplying goods or services to the FMS Program.

FMS Costs Not Determined. Nonconcur. The performing DoD Components and private contractors, and not the FMS Trust Fund, generate revenue and incur expenses as they provide requested goods and services for the FMS program. Additionally, the DoD Components should charge actual expenses associated with FMS cases. In order to determine if the Department is in compliance with the Arms Export Control Act, it would be necessary to examine the performing activity's records to ascertain if it probably charged the FMS Trust Fund. Such a determination cannot, and should not be expected to, be made through an examination of the paying customer account--the FMS Trust Fund.

Further, it should be noted that accrual accounting, and the recording of revenues and expenses in Departmental-level (Trust Fund/country level) accounts would not, and should not be expected to, ensure that expenses do not exceed revenues at the

installation-level. Additionally, such accounting and recording practices, even if implemented, would not ensure the recovery of full costs in accordance with the Arms Export Control Act. To assure that costs are fully recovered would require an examination of the performing activity's accounts. An audit of the FMS Trust Fund cannot, and should not be expected to, encompass the entire FMS Program.

Inadequate Internal Control Reviews. Nonconcur that internal control reviews did not adequately assess FMS systems and processes. The evaluation of internal controls of the FMS Trust Fund is conducted in a manner consistent with the way the FMS Trust Fund is managed. This enables the Department to have confidence in the effectiveness of the internal controls. An evaluation of controls, which is inconsistent with the way that the FMS Trust Fund is managed, would be dysfunctional.

There is little reason to treat the FMS Trust Fund any differently than other DoD funds, or to treat the FMS program any differently than other DoD programs. There is not an over-all DoD-wide Federal Managers' Financial Integrity Act (FMFIA) review of programs such as depot maintenance, supply operations and transportation. Instead, each DoD Component performs its own FMFIA review of activities and systems that support many different programs, including depot maintenance, supply operations, transportation, and the FMS program.

DSAA and DFAS conduct internal reviews of their operations. DFAS' review encompasses each of its centers. This review includes the FMS Trust Fund and its feeder systems. For example, the reviews include the Planning, Budgeting and Accounting Systems at the Indianapolis Center; the Case Management Control System at the Denver Center; and the Management Information System for International Logistics at the Philadelphia Defense Accounting Office. Those reviews are conducted in accordance with a DoD Chief Financial Officer memorandum of August 31, 1992, subject: "Management Advisory Memorandum of the FY 1992 Financial Statements for the Foreign Military Sales Trust Fund."

Accounts Payable Not Included in the Financial Statements. Concur in principle that valid accounts payables should be included on appropriate financial statements. However, the draft report does not provide sufficient detail to fully assess the extent to which the referenced accounts payable are payables of the Military Departments or payables of the FMS Trust Fund. To the extent that any of the referenced Air Force accounts payable amounts are payables of the Air Force, rather than the FMS Trust Fund, they should have been excluded from the "Statement of Financial Position for the FMS Trust Fund." Conversely, to the extent that any of the referenced Army and Navy accounts payable amounts are payables of the FMS Trust Fund, rather than

Comptroller of the Department of Defense Comments

the Army and the Navy, they should have been included from the "Statement of Financial Position for the FMS Trust Fund." This office will work with the DFAS to ensure proper accounting and reporting of accounts payable amounts for the FMS Trust Fund.

Defense Business Operations Fund Absorbed Interest Penalties Paid to Contractors. Partially concur. Interest penalties paid by the Defense Finance and Accounting Service are included in general and administrative amounts billed to the Military Departments. In turn, the FMS Trust Fund reimburses the Military Departments for contract administration efforts, which include the cost of disbursing functions (including interest penalties) performed by the Defense Finance and Accounting Service. Therefore, interest penalties are not being absorbed by the Defense Business Operations Fund, and are, in fact, ultimately being paid by the FMS Trust Fund. Nevertheless, DFAS has initiated action to bill FMS customers directly, rather than indirectly, for interest penalties. An example of when FMS customers would be billed directly would be when expenditure authority could not be provided due to insufficient funds in the FMS customer account.

Comptroller, Defense Security Assistance Agency Comments



DEFENSE SECURITY ASSISTANCE AGENCY

WASHINGTON, DC 20301-2800

03 JUN 1993

In reply refer to:
I-002926/93

MEMORANDUM FOR DIRECTOR, FINANCIAL MANAGEMENT DIRECTORATE,
DEPARTMENT OF DEFENSE, INSPECTOR GENERAL

SUBJECT: Draft Reports on Internal Controls and Compliance with
Laws and Regulations for the Foreign Military Sales
Trust Fund's Financial Statements for FY 1992 (Project
No. 2FD-2005)

REFERENCE: Inspector General, Financial Management Directorate,
Memorandum of May 17, 1993, Same subject.

DSAA understands subject audit was required by the Chief
Financial Officers Act of 1990, which requires you to report on
the adequacy of internal controls, internal control weakness,
and compliance with laws and regulations. We note that you made
no recommendations in either Part II or III of above reference.

Referenced memorandum requested comments on Parts II and III
of the draft audit report. Our comments are in three categories:
(1) agree with specific audit findings; (2) disagree with
specific audit findings; and (3) unable to comment with specific
audit findings due to a lack of sufficient data in the draft
report. Also included are comments and discussion of issues
which may be answered by the Department of Defense Chief
Financial Officer (DoD CFO) or the Director, Defense Finance and
Accounting Service (DFAS).

PART II INTERNAL CONTROLS:

LACK OF OVERALL MANAGEMENT OF FMS. Disagree. Department of
Defense Directive 5105.38, "Defense Security Assistance Agency
(DSAA)," dated August 10, 1978, clearly identifies DSAA's
mission, organization and management relationships,
responsibilities and functions, authority, and relationships.
Therefore, the fourth sentence in this section should be deleted.
We agree that no single DoD official or organization exercised
management authority over the day-to-day operations of the
Foreign Military Sales (FMS) program. However, DSAA is charged
with supervision of the program with decentralized management
and operational responsibilities for day-to-day operations
residing with the military departments. This is analogous to
many other DoD programs that are comparable in size and
complexity to the Foreign Military Sales Program. Your viewpoint
that a centralized or decentralized operation, in and of itself,
might have a bearing on risk and, therefore, provide a resultant
"high risk that FMS transactions may not be executed in

Comptroller, Defense Security Assistance Agency Comments

accordance with established policies and that the financial statements may be materially misstated" is not justified by evidentiary audit results. The mere size of most complex governmental programs precludes total centralization of operations.

Also, DoD Directive 5132.3 establishes the policy that Security Assistance requirements shall be integrated with other DoD requirements and implemented through the same DoD systems, facilities, and procedures. This long-standing policy has been practiced by the DoD for at least four decades.

INADEQUATE AUDIT TRAILS FOR DISBURSEMENTS. Disagree. DSAA has been advised by DFAS-Headquarters that DFAS-Columbus does keep records on FMS contractor payments. Without specific audit examples to the contrary, we disagree with audit conclusions. DSAA disagrees with DoDIG's statement: "When a disbursement report contained errors, it was entered into the DFAS - Denver accounting records at least three times." Any accounting system that perpetuates sound accounting principles, including voucher or transaction level control and transaction audit trails, would be required to record all three transactions - since three distinctly separate transactions occurred. Without this posting technique, reconciliation would be impossible and accounting control would not exist.

PART III COMPLIANCE WITH LAWS AND REGULATIONS

NO ACCOUNTING FOR REVENUES, EXPENSES, OR NET POSITION. DSAA followed the policy provided by the Department of Defense Chief Financial Officer's memorandum of August 31, 1992.

FMS COSTS NOT DETERMINED. Partially agree. DSAA agrees with the DoDIG's statement "DoD did not account for FMS revenues, expenses, and net position," however, the DoD CFO's policy of August 31, 1992 precluded such action. DSAA notes that the DoDIG's statement "Accrual accounting in accordance with DoD 7220.9-M, the 'DoD Accounting Manual,' October 1983, is essential to determining whether DoD is fully recovering all costs of the FMS program" is not entirely accurate. DSAA has instituted several management controls, including extensive case reconciliation and closure procedures, that clearly demonstrate the recovery of all costs. The accounting technique of "accruing costs" cannot guarantee that any or all costs are accurately calculated or properly entered into accounting or billing systems.

INADEQUATE INTERNAL CONTROL REVIEWS. Agree. DoD has developed policy and implemented internal control reviews on an organizational basis and not on a program basis that would necessarily involve many different organizations. As stated

Comptroller, Defense Security Assistance Agency Comments

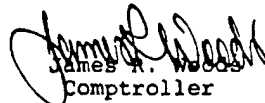
previously, DoD policy is to execute FMS transactions through existing DoD systems. Inherent internal controls of those executive systems are assumed to be valid for FMS also.

ACCOUNTS PAYABLE NOT INCLUDED IN THE FINANCIAL STATEMENTS.

Agree. No footnote was included for accounts payable and therefore, the statement may not have adequately disclosed the material value, limitations, or nature of the accounts payable balance. Research indicates that the accounts payable balance represents Air Force administered contract obligations unpaid, i.e., FMS deliveries received but unpaid. DFAS reported the value in error, since implementation of DoD CFO memorandum of August 31, 1992, would have precluded the reporting of this value.

DBOF ABSORBED INTEREST PENALTIES PAID TO CONTRACTORS.

Agree. Interest penalties are properly paid from the Defense Business Operations Fund (DBOF) surcharge. A standard operating procedure to demonstrate allocation and billing of these costs is being coordinated and approved by DFAS-HQ for DoD implementation. FMS customers will pay their share of penalties through the surcharge.


James A. Woods
Comptroller